Knysna Municipality

Medium Term
Revenue & Expenditure
Framework (MTREF)

Annual Budget

2012/2013 - 2014/2015

Table of Contents

Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

NT – National Treasury

Net Assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

R&M – Repairs and maintenance on property, plant and equipment.

SCM – Supply Chain Management.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote – One of the main segments into which a budget is divided. In Knysna Municipality this means at directorate level.

PART 1 – ANNUAL BUDGET

Section 1 – Mayor's Budget Speech

To be inserted in final approval document.

Section 2 - Budget Related Resolutions

Knysna Municipality

MTREF 2012/13

The resolutions approved by Council with the final adoption of the budget in May will be:

RESOLVED:

[a]. That the annual budget of Knysna Municipality for the financial year 2012/2013; and indicative for the two projected years 2013/14 and 2014/15, as set-out in the schedules contained in Section 4, be approved:

1.1 Table A2: Budgeted Financial Performance (expenditure by standard classification)

1.2 Table A3: Budgeted Financial Performance (expenditure by municipal vote)

1.3 Table A4: Budgeted Financial Performance (revenue by source)

1.4 Table A5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding

[b]. Property rates reflected in Annexure 3 and any other municipal tax reflected in Annexure 1 are imposed for the budget year 2012/2013.

[c]. Tariffs and charges reflected in Annexure 3 are approved for the budget year 2012/2013.

[d]. Council notes the amended Integrated Development Plan adopted on 31 May 2012 reflected as summarised in Section 6.

[e]. The measurable performance objectives reflected in Section 7 are approved for the budget year 2012/2013.

[f]. The amended policies for credit control, debt collection and indigents as summarised in Section 8 (and detailed in Annexure 6) are approved for the budget year 2012/2013.

[g]. The other new and/or amended budget related policies summarised in Section 8 (and detailed in Annexure 6) are approved for the budget year 2012/2013.

[h]. The measurable performance objectives for each vote introduced in Section 15 and detailed in Annexure 8: 'Service Delivery and Budget Implementation Plan' are noted for the budget year 2012/2013.

Section 3 – Executive Summary

Introduction

The budget for the financial year 2012/13 is the first full budget that can be realistically said to be a Democratic Alliance budget for Knysna. The budget for 2011/12 was approved, entirely legally, just prior to the municipal elections in May 2011 but it has meant that the new DA political leadership of Council has been working with a budget which was not entirely to their liking and one which perhaps emphasised different priorities. This Medium Term Revenue and Expenditure Framework (MTREF) until 2014/15 fully reflects the direction the new government wishes to move in, albeit accepting that changes in policy and direction cannot simply happen overnight.

This budget also reflects the continuing malaise that South Africa, and particularly a Garden Route municipality such as Knysna, finds itself in as a result of the global economy. This is an austerity budget aimed specifically at ensuring basic service delivery and in doing so is specifically following the dictates spelt out in the National Treasury Circulars No. 54, 55 and most particularly the Budget Circulars for this MTREF, Circulars 58 and 59.

The new budget for Knysna municipality amounts to some R561 million in 2012/13, being R71 million for capital and R490 million for operating. The budget approved for 2012/13 increased by R17 million from the draft budget tabled. This is primarily as a result of capital projects identified which will not be completed by 30 June 2012 and thus have been re-appropriated in the new financial year.

In the forthcoming financial years we have included the anticipated NDPG drawdowns, however no specific capital projects have currently been identified. When the planning phase for the grant reaches its conclusion in 2012/13, the direction of the capital spend in future years will be determined.

To all intents and purposes we are now a half a billion rand operating budget organisation. Residents often regard the municipality simply as running a number of small towns and simple services. The fact is that a municipality is actually a highly complex machine affecting each and every person who touches it.

Consolidated Overview of the 2012/2013 MTREF

R thousand	Adjustments Budget 2011/12	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Total Operating Revenue (excluding capital transfers)	473 184	488 401	527 089	576 847
Total Operating Expenditure	467 234	489 599	521 398	563 549
Surplus/(Deficit) for the year	5 950	(1 198)	5 691	13 298
Total Capital Expenditure	85 420	71 083	65 275	78 123

Background

In November 2009 the CFO presented to the then Executive Mayoral Committee the financial analysis and plan for the financial years ending in June 2012. That plan called for tight budgets to enable Council to weather the storm of ESKOM, handle the cash outlay caused by the GRAP implementation and restore some balance to our long term capital debt.

There is no doubt that the plan was beginning to bear fruit and cash was starting to flow back into the municipality's reserves. Unfortunately however, the economic downturn has remained very stubborn in the Southern Cape and that, compounded by the problems we have experienced in regard to the leakage from the sewerage works into the estuary, has placed pressure on our cash holdings and in our ability to cash back our reserves at the levels planned for and required by National Treasury.

Knysna from a financial perspective is a municipality that is heavily geared and heavily dependent upon its domestic sector. Knysna was, is and shall be for the foreseeable future, a domestic town. Approximately 80% of Council's own generated revenue, ie excluding governmental transfers, comes from Knysna's domestic sector. There is little scope for cross-subsidisation from the business sector in relief of the domestic account as happens in neighbouring towns such as George and Mossel Bay, and therefore increases in tariffs impact directly upon domestic consumers and hence almost immediately upon the municipality's cash flow. Increased taxation invariably will mean increased non-payment.

Coupled to this is the reality that Knysna is also a holiday destination town. That means that many Knysna property owners do not actually live in the municipality for home purposes. Knysna is for visiting on holiday or for renting property out. This in turn means that Knysna must fund itself and provide services as if it were a twelve month town but one which can only operate on at best six month revenues. There is an obvious mis-match between revenues and service demands and that is before the municipality can consider backlogs in its previously disadvantaged areas.

This is supported by no less a body than the credit ratings agency Moodys who stated in their most recent rating,

"the Baa2.za national scale issuer rating of the Municipality of Knysna reflects its high debt levels – albeit declining - as well as adequate liquidity levels. The rating also takes into account the municipality's narrow economic base that is largely dependent on income from tourism, a factor that renders Knysna's budget vulnerable to macroeconomic cycles".

This 2012/13 budget also coincides with the new General Valuation (GV) roll. A new valuation roll always brings with it incidence shifts and this roll is no exception. There are certain areas in the municipality where the increases in property value are in excess of 500% meaning that apart from anything else the new budget is inevitably going to have to be based on lower payment levels and increased bad debt provisions. This in turn means less money in the system and less money to spend on service delivery.

It should also be noted that this is the second valuation roll compiled in terms of the Municipal Property Rates Act and the concept of market value, that is, 'willing buyer, willing seller'. What this does, specifically in the Western Cape, is accentuate the incidence shift from higher to lower value areas. In the first roll compiled for the 2008 financial year the impact was on the higher value properties which had been undervalued historically. In this new roll there is a general stability brought to bear at the middle and higher end but the shift occurs as lower value properties begin to reflect the sales they are attaining in the market place. As these sales push up they have the effect of raising the whole of the lower value market. The problem than arises as to the effect of the amount of tax payable because at the lower end the ability to pay principle is far more acute and issues such as asset disposal and tax payer mobility are greatly reduced.

Summary of revenue classified by main revenue source

Description	2008/9	2009/10	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue By Source								
Property rates	80 793	108 597	116 791	124 931	125 631	140 834	149 745	157 032
Property rates - penalties & collection charges	1 625	1 926	2 019	1 772	1 772	2 557	2 685	2 819
Service charges - electricity revenue	93 588	117 077	138 946	173 915	160 059	178 007	199 403	226 421
Service charges - water revenue	31 915	35 479	37 925	39 278	40 150	43 113	45 592	48 217
Service charges - sanitation revenue	13 494	8 460	9 121	9 523	9 523	10 001	10 573	11 182
Service charges - refuse revenue	14 400	11 433	12 715	13 506	13 506	13 590	14 112	14 798
Service charges - other	2 919	3 132	3 310	2 442	2 442	3 219	3 460	3 718
Rental of facilities and equipment	3 551	3 972	4 069	4 853	4 853	4 598	4 919	5 268
Interest earned - external investments	7 573	5 876	5 915	6 786	6 786	7 701	9 309	10 934
Interest earned - outstanding debtors	4 173	3 777	3 873	3 683	3 683	4 034	3 712	3 813
Dividends received	–	–	–	–	–	–	–	–
Fines	2 513	2 125	2 338	2 282	3 162	3 506	3 845	4 162
Licences and permits	1 386	1 379	1 719	1 787	1 787	1 798	1 941	2 110
Agency services	1 692	1 689	1 716	1 698	1 698	1 691	1 700	1 709
Transfers recognised - operational	49 697	61 732	62 943	70 210	93 471	70 368	72 695	81 048
Other revenue	6 333	13 744	60 317	4 344	4 495	3 198	3 248	3 416
Gains on disposal of PPE	2 540	243	1 541	166	166	186	150	200
Total Revenue (excluding capital transfers	318 191	380 640	465 259	461 176	473 184	488 401	527 089	576 847

For a number of years Knysna Municipality has been raising concerns about the financing of local government in general and the amount of our Equitable Share in particular. A few years ago commentary was passed in this same document that "the financing of local government is archaic and totally unsuitable for the 21st century". Whilst little seems to have changed from a policy perspective it is very gratifying to note that the Financial and Fiscal Commission seems to have at last woken up to this simple fact and begun to express its own concerns. The very worrying element from a Knysna perspective however is that the Fiscal Commission's studies are showing that Knysna municipality is not only under-funded but in fact it is grossly under-funded. At the time of the data used by the Commission, Knysna was under-funded by the amount of some R39 million in total operating grants. The 2012/13 equivalent is R54 million.

The funding gap left by the lower grants has to be filled from rates or service charges or expenditure reductions. In recent years the gap has been predominantly filled from cutting unnecessary departmental expenditure at budget time or freezing staff appointments. This is simply because the ESKOM impact on an individual consumer has been so large that the municipality has, by necessity, already minimised rate and other tariff increases as far as is practically possible.

Percentage revenue by main revenue source

Description	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2012/13	%	Budget Year +1 2013/14	%	Budget Year +2 2014/15	%
Revenue By Source								
Property rates	125 631	27%	140 834	29%	149 745	28%	157 032	27%
Property rates - penalties & collection charges	1 772	0%	2 557	1%	2 685	1%	2 819	0%
Service charges - electricity revenue	160 059	34%	178 007	36%	199 403	38%	226 421	39%
Service charges - water revenue	40 150	8%	43 113	9%	45 592	9%	48 217	8%
Service charges - sanitation revenue	9 523	2%	10 001	2%	10 573	2%	11 182	2%
Service charges - refuse revenue	13 506	3%	13 590	3%	14 112	3%	14 798	3%
Service charges - other	2 442	1%	3 219	1%	3 460	1%	3 718	1%
Rental of facilities and equipment	4 853	1%	4 598	1%	4 919	1%	5 268	1%
Interest earned - external investments	6 786	1%	7 701	2%	9 309	2%	10 934	2%
Interest earned - outstanding debtors	3 683	1%	4 034	1%	3 712	1%	3 813	1%
Dividends received	–	0%	–	0%	–	0%	–	0%
Fines	3 162	1%	3 506	1%	3 845	1%	4 162	1%
Licences and permits	1 787	0%	1 798	0%	1 941	0%	2 110	0%
Agency services	1 698	0%	1 691	0%	1 700	0%	1 709	0%
Transfers recognised - operational	93 471	20%	70 368	14%	72 695	14%	81 048	14%
Other revenue	4 495	1%	3 198	1%	3 248	1%	3 416	1%
Gains on disposal of PPE	166	0%	186	0%	150	0%	200	0%
Total Revenue (excluding capital transfers and contributions)	**473 184**	100%	**488 401**	100%	**527 089**	100%	**576 847**	100%
Total Revenue from Rates and Service Charges	**353 083**	75%	**391 321**	80%	**425 570**	81%	**464 187**	80%

The historical municipal balancing act of using electricity surpluses (an exchange transaction to use accountant speak) to lessen the rates (a non-exchange transaction) burden has come under severe pressure in recent years as National Treasury and the Electricity Regulator have fought to ensure that electricity surpluses are kept more within the electricity function rather than cross-subsidising general rate activities. There is equal merit and demerit in the argument. The fact remains that nowadays general municipal services are not sustainable or viable in their own right. They must be funded from somewhere.

By way of example, Knysna is sitting in the ridiculous situation whereby it has to fund six different water and sewerage reticulation systems. The systems have been historically designed around the distinct geographical attributes of the various communities they serve. In other words they do not link together, they operate on different platforms, have different components and have no, or at best very limited, economies of scale. The topography that the systems operate in also means that they require enormous amounts of energy to be consumed pumping water and sewerage up and down hills. The bottom line is that taken collectively, the water and sewerage services are too expensive for the municipality to operate and should be regionalised. This of course also flies in the face of the commonly mistaken view that these services should have tariffs that are cost reflective.

In Knysna the economy, which is a predominantly service economy based on tourism, has been under severe pressure. Increasing charges and cutting budgets at the municipal level as a mitigator can no longer suffice. What is now required is the far more radical approach whereby Council considers divesting itself of a number of activities or, and more appropriately, cutting back on all or at least some of the unfunded mandates it performs

and spends money on. This would allow Council the opportunity to either reduce rate and tariff increases or shift expenditures back to those functions which are set out in the Constitution and onto the primarily basic services as requested by National Treasury in their annual budget circulars.

The list of unfunded mandates performed by this and most other municipality's for that matter, is long and varied and ranges from libraries and museums to vehicle licensing and the daddy of them all Housing. Housing currently runs at a deficit of over R11 million in the current year. The actual deficit would be much larger but all the attendant infrastructure assets and their depreciation and interest costs etc., sit in other departments masking the true cost of low income housing.

At a recent intergovernmental forum chaired jointly by the MEC for Local Government and Housing and the MEC for Finance and Tourism, a number of municipalities pointed out the legal and financial risks of performing unfunded mandates and called on National and Provincial Government to take their functions back or fund them 100%. National Treasury has also frequently spoken of the need for local government to only stick to what it is constitutionally required to do because it could be legally challenged.

At its most recent strategic meeting the Knysna Executive Mayoral Committee resolved to undertake investigations into the current unfunded mandates with a view to reducing the financial burden they are imposing on ratepayers.

In the Adjustment Budget for the current year submitted to Council in February 2012 the issue of reduced electricity revenues was clearly highlighted. The electricity decline can be attributed directly to two issues. The first is the continued decline in the economic activity of Knysna as a result of the recession nationally. Knysna is a holiday town predominantly and our commercial and industrial activity is a by-product of the tourism success. Any downturn in national activity immediately effects the secondary economy that is Knysna which in turn reduces its "business" spend. The recovery in this area is always slow and will generally lag 18-24 months behind the national recovery. However, there have been indications that this downturn has been deeper pushing the recovery time further out to 36 months. There has recently been some indication of green shoots appearing but these are few and far between and recovery remains stubbornly slow.

The second impactor remains ESKOM which, with the ridiculous tariffs it has been allowed to get away with, has now caused a clear change in consumption patterns. A multiplier effect has been unnaturally created whereby large tariff increases cause reduced sales which cause higher tariffs to chase the revenue which cause further reduced sales. Fortunately the national fiscus has now woken up to the nonsense of ESKOM by only affording it a much reduced bulk tariff increase for the forthcoming year, compared to previous years and this is fully welcomed and supported. However the biggest irony of the ESKOM debacle is only now starting to become apparent. In a recent report in Parliament an estimate of R35 billion was placed on the maintenance backlog of municipal electrical

infrastructure. A further estimate was made that this figure is rising at R2.5 billion a year and that the average age of assets is about 45 years. This of course leads us back to the nonsense that is cost reflective tariffs as it means that electricity prices will have to rise proportionately further to manage this backlog and that property taxation will have to rise disproportionately to take up the slack on the other services performed at the local level.

It is often mooted that there some 150 municipalities now in financial distress and requiring interventions of varying kinds. One would have assumed perhaps that the penny might have dropped that the reasons for these interventions were not simply ‘incompetence’ at the local level, but perhaps ‘incompetence’ at other levels for not understanding the fiscal realities and complexities of local government.

Past performance

Knysna Municipality has now attained five unqualified audit reports in the last six years and the qualified report received in 2006/07 was for technical reasons that had no effect on the financial stability or performance of Council. There is a huge demand on all local authority’s to attain the status of a “clean” audit and this is actually a performance target of the Western Cape provincial government which is frankly bizarre in the extreme. It was recently said that achieving a “clean” audit just means the auditors were not very good and there is an awful lot of truth in that statement because the legislative environment which now governs local government makes it impossible for anyone close to what is happening at the coalface of local government to believe that they can achieve a legitimate “clean” audit. National Treasury themselves recently called into question the emphasis being placed by the Auditor-General on performance management when no common standards or guidelines for local government have been set and yet the Auditor-General continues to produce reports commenting on and measuring performance.

Knysna municipality has embraced the concept of a “clean” audit but as was pointed out in last year’s MTREF we will endeavour to attain a clean audit at our own pace hopefully by 2014. That depends upon the appointment of more, much needed, competent and qualified staff in the central Finance section and the decentralisation to and acceptance of financial responsibility by the various Council departments in their own right.

Budget Summary

Most of the basic information surrounding this year’s budget is set out in ‘Table A1: Budget Summary’ shown in Section 4 of this document.

The anticipated final outcome of the current 2011/12 budget is that Council will end with a surplus after all transfers of R39,3 million. This is comfortably above the original budgeted figure of R19,8 million but a lot of this is from enhanced operational transfers (grants) of R23,2 million.

Property rates are almost exactly on budget and service charge income, as taken into account in the Adjustment Budget, is down R13 million.

The capital expenditure emphasis remains on water and sewerage infrastructure most especially after the recent problems which developed at our waste water treatment works next to the estuary. Expenditure on these “heavy” infrastructures is to the detriment of our social and community backlogs. We would dearly like to change this approach as water and sewerage capital expenditures are inordinately expensive to fund and more importantly maintain each year, however the continued influx from the Eastern Cape and from across our borders is rapidly proving to be beyond our affordability. Some time ago a previous Mayor of Knysna said inward migration had to stop and that Knysna was closed. Nothing has changed and the position is worsening. New areas not previously within our IDP horizons are mushrooming and it is impossible for a local authority such as Knysna with all our attendant financial constraints to even contemplate providing additional basic services. A decision will soon be required to consider stopping all housing construction outside of the previously agreed Knysna Housing programme. The increased housing development may look and sound good but the reality is that the hidden add-on cost of housing by means of “free services” and the additional pressure on infrastructure, is a time bomb that will rapidly become unaffordable to the rest of the community who fund all the various services involved.

Knysna is a town that is predominantly domestic in its tax base. Knysna is 70 kilometres from nowhere and the majority of people that wish to relocate here are retirees or from the Eastern Cape. Neither of these groupings offer much in the way of disposable income for inward investment purposes nor do they encourage much economic growth outside of tourism. The downturn in the national economy has meant that development has virtually ceased and this in turn has led to a position whereby unless development starts again, then Knysna will be in a terminal decline. For this reason Council has taken the decision to fast-track local economic development.

A number of measures are being examined. These include targeting local contractors for Council business and paying an acceptable premium to use them. Council is also introducing incentives aimed at subsidising, delaying or even waiving development contributions depending upon the type and locality of the development and introducing a new business rebate to attract, as the name suggests, new business by means of a rates holiday. The local portion of Council’s discretionary spend has already risen to R52 million in the first 7 months of the current financial year. Extrapolating that to R90 for the whole year this will mean an increase of some 40% in local spend in just one year. A very positive achievement.

Financial position and MTREF strategy

The financial position of Knysna Municipality is set out in ‘Table A6: Budgeted Financial Position’. Probably the biggest misconception in municipal finance is the one created by the term “accumulated surplus”. When Councillors and the general public see this figure, most especially when it has a figure of R918 million next to it, they immediately ask why are we not spending this or/and why are we increasing our rates and tariffs? The reality of course is that this figure ultimately includes the value of our property, plant and equipment much of which cannot easily be turned into cash. You cannot sell a road or a cemetery or even a library or park at the values placed on them. The only

realistic figures to look at those contained in Table A8 and specifically the surplus or shortfall figure. That shows the increased reserves requiring to be cash backed and a surplus figure of only 2,9 million. Prioritising forward this surplus continues to reduce but this is not regarded to be a major concern as there will also be savings which will supplement the surplus in the future. It would be very good if the surplus figure was much higher but Knysna municipality has always taken the position that our assets should be in the ground working for the community rather than in the bank providing no service delivery.

There has been a great deal of comment both nationally and provincially regarding concerns about how much local government is spending on repairing and maintaining assets. This has even permeated to the local population with discussion in the local press about the 'state of the roads' and comments regarding 'a lack of maintenance'. The pronouncements that take place on this are unfortunately often ill-informed or premised on the wrong figures. The current most common ratio in local government used to measure repairs and maintenance is Repairs and Maintenance as a percentage of Total Operating Expenditure less Depreciation and Bulk Charges. The current figure for Knysna based on the 2010/11 Financials is 6,8%. Some engineers will tell you that the figure should be closer to 10%. Obviously this methodology is flawed at the outset as any funding for maintenance must be based on asset needs and total budgets. However in the absence of reasonable maintenance plans the pick a figure concept of 10% is as good as anything.

Unfortunately that is not the end of the story. The figure of 6,8% suggests that Knysna is not maintaining its assets as well as our counterparts in the province. However if one decides to add into the mix those salaries directly involved in the activity of repairs and maintenance, activities such as roads for example, the Knysna figure increases to 13,5%. This does not mean that Knysna's assets are being better maintained but it does show the limits of the arguments and ratios being put forward. Another ratio tells us we have a renewals backlog of some R53 million and that we should be spending R13,5 million annually on on-going renewals and R11,9 million on actual repairs and maintenance. To put it into some perspective the combined national figure is estimated at R25,2 billion with a national renewals backlog of R74 billion, based on 2009 figures.

Ultimately it boils down to how much the local authority and by extension, the rate and services payer can afford to pay. It is suggested that the issue may not be the repairs and maintenance required but the efficacy and cost of the actual assets being put in that needs to be questioned.

Cash Flow

For a number of years Knysna has been regarded nationally as one of the highest geared municipality's in South Africa. Essentially we have had a high debt to revenue ratio. This has been commented on by rating agencies and occasionally by provincial government but in itself it has not been of particular concern because of the deliberate policy approach followed whereby the whole budget process is driven to ensure the cash flow is protected as far as possible. Nevertheless Council has followed the policy in

recent years of trying to limit its borrowings as far as possible, precisely because of concerns regarding the economy. To-date, that policy has proven prudent.

At budget time this means that Council has to take very hard decisions. These decisions are not often appreciated most especially by staff when it comes to cutting back their budget allocations. Additionally in previous years Councils could and would borrow their way out of trouble. A neat trick was to organise a loan or bond issue in June of the one year which obviously meant cash in the bank going into the new budget year. Today National Treasury is likely to have picked up early warning signs and withheld grant funding as a counter.

This budget for the 2012/13 financial year for Knysna municipality is premised on a 94% payment level. This is based on the levels experienced at the adjustment budget stage in January 2012 but is in fact nearly two percentage points below the actual January level. The reason is firstly another ESKOM increase above 10% but more pertinently it is the incidence shift in the new General Valuation roll, most especially at the lower value end, that raises concerns on payment levels. A 95% or 96% level simply cannot be justified at this point and if, after annual billings are sent out in September 2012, it becomes clear that payment levels are likely to be lower than 94% then Council may have to make definitive early adjustments on the expenditure side.

Capital Budget

The capital budget for 2012/13 will total R71 million of which R36,3 million is funded from national and provincial grants and R34,7 million from internally generated funds and borrowings, which includes R15,6 million of unspent borrowings from 2011/12. The various projects are set out in 'Annexure 2: Supporting Table SA36'. Council is continuing the process begun last year of rebuilding and up-grading municipal buildings and assets including sportsfields, libraries and halls, all of which have been badly neglected in recent years. This was initially a five year project and will be reviewed annually depending upon need. Council buildings are generally in a poor state of repair and as a result grossly under-utilised. This refurbishment programme will enable the municipality to put the buildings to their original intended use and allow communities to utilise them without necessarily spending moneys on new buildings which will fall into disrepair unless they are properly and continuously maintained.

The biggest shift in approach to the capital budget has been the introduction of a project prioritisation model that calculates the weighting of proposed capital projects in terms of various categories and criteria. The model will generate the prioritised Multi-year Capital Programme to be considered by Mayco and the IDP and Budget Steering Committees. The model integrates and considers various issues such as funding sources, legal implications, project dynamics, growth priorities and ultimately the wishes of the community as articulated via the IDP process.

The recent success of the ward project system in conjunction with Councillors and ward committees has prompted Council to repeat the exercise and expand it slightly. This year the projects in wards programme will be increased from the R200 000 per ward to R300 000 per ward and Council is considering, even at this early stage extending it to R400 000 by the end of the MTREF period. National

Treasury insists that all the projects must be identified and specified in the budget if they are of a capital nature.

The final projects and programmes will be included in the municipal budget and performance against the budget will be reviewed quarterly.

National Treasury has indicated that a minimum of 40% of the capital budget should be for renewal as opposed to new infrastructure. The forthcoming budget indicates that renewal expenditure will amount to 58% (R41,2 million) of total capital expenditure. Whilst this may seem a very high figure, what it actually indicates is that the infrastructure demands being placed upon the municipality have reached a very unhealthy point. We are spending more money simply to stand still than we are to grow the municipality. This further highlights the need to review and reduce our expenditures on issues that are not our functions or are not basic services.

The table below highlights two indicators as taken from Table SA8 namely, those regarding capital charges and cost coverage. These indicators are two of the most critical that any potential investor or lender will look at, obviously in conjunction with issues such as payment levels etc.

%	2009/10	2010/11	2011/12	2012/13	2012/13	2013/14
Capital charges /Opex	6.1	8.0	6.6	6.4	6.0	5.5
Cost coverage	0.7	2.3	1.2	0.8	1.1	1.4

The two indicators show that the municipality is managing its obligations well and should remain capable of being able to borrow moneys from the capital market at competitive rates and in reasonable quantity for the foreseeable future. Last year Council considered the possibility of borrowing to pre-fund MIG expenditures thereby eliminating much of our previous cash flow worries. This is directly in line with the short-term borrowing philosophy of National Treasury. This remains very much on the table but it is likely to be delayed until the 2013/14 financial year until greater clarity is obtained as to the financial requirements that will be needed in respect of the successor grant system to MIG.

The other point of note is that the capital charges ratio is well below that regarded as being of concern within local government.

Economic Development

Three years ago Knysna was awarded some R120 million from the Neighbourhood Development Grant (NDPG) administered by National Treasury. During the course of the last twelve calendar months various investigations have been undertaken by an international consulting firm (ARUP). These will culminate in the publication of a first draft report that will set out the status quo situation before beginning the process whereby Knysna can begin to properly utilise this grant and look forward to 2030 scenario planning.

All council strategy planning, most especially for capital projects, must be aligned with the NDPG process for maximum economic benefit going forward.

During the current financial year ending June 2012 the first project, a new taxi rank in Hornlee, was commenced and is now nearing completion at a cost of some R7 million.

The NDPG planning programme will be finalised for release in the 2012/13 financial year and major projects will be developed with timeframes commencing in 2013/14. The importance of this programme for Knysna municipality in the short to medium term cannot be over-emphasised as it will form the directional focal point for Council going forward. It is also anticipated that further funding requests will be made to National Treasury based on the success of the initial roll-out of the plans and associated projects.

Operating Expenditure

MFMA Circular 58, the Budget Circular for 2012/13 stated the following:

"The revenue side of municipal budgets will continue to be constrained because of the on-going economic pressures. Therefore, municipalities will need to make some very tough decisions on the expenditure side this year.

Priority ought to be given to:

- *Ensuring drinking water and waste water management meets the required quality standards;*
- *Protecting the poor;*
- *Supporting local economic development initiatives that foster micro and small business opportunities and job creation and*
- *Securing the health of the asset base by increasing spending on repairs and maintenance."*

The Circular continues:

Municipalities must pay special attention to controlling unnecessary spending on non-essential items by eliminating:

- *Excessive sponsorship of events and the purchase of tickets to events for councillors and officials;*
- *Excessive catering for meetings and other events;*
- *Arranging workshops and events at expensive private venues;*
- *Excessive luxurious office accommodation and office furniture;*
- *Foreign travels by mayors, councillors and officials;*
- *Excessive councillor and staff perks such as luxurious mayor cars and houses, note books, IPADS and cell-phone allowances, travel and subsistence allowances;*

- *All donations to individuals that are not made in terms of the indigent policy or bursary scheme (e.g. Donations to cover funeral costs);*
- *Costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending/ dismissing staff;*
- *The use of consultants to perform routine management tasks and the payment of excessive fees to consultants."*

National Treasury is informing Councillors, municipal employees and rate and tax payers that municipality's must concentrate their spending effort on services that are meaningful and not indulgent. In other words this should be an austerity budget aimed at the people who live in municipalities and not the municipalities themselves.

Operating Revenue

Local government is in essence funded from three sources. Assessment rates, revenues from trading services (the majority from electricity in Knysna's case) and transfers from national government. Some 80% of our total operating revenue comes from these sources with 64% from rates and electricity alone. There is therefore a very clear relationship which makes price changes very sensitive.

Prior to 2009 electricity and rates increases were usually similar in nature and would rise roughly in comparison to the inflation rate. Thus on a 7% inflation increase one would have expected electricity revenues to have risen by 50%. Actual budgeted revenue has risen by 90% and the effect is to make Councils far more dependent on electricity revenue than is advisable. Assessment rates have risen by 75% in the same period but that includes two revaluations on the market value system and a major revenue enhancement programme to ensure the correct tax was being levied on the usage of each property . When a service tariff becomes more important in revenue terms than a constitutional tax, one seriously has to question all governmental comments regarding the tax base of local government.

Tariff implications of the annual budget

Electricity Tariff

The increase in the non-domestic tariff is approximately 13.3% on average for commercial consumers on prepaid meters, 10.2% for commercial credit meter consumers and 10.9% for bulk supply consumers. All of these increases are below the bulk increase to municipalities of 16%. The domestic tariff will increase by an average 11.4% for those on prepaid meters and 9.3% for those on credit meters. Although the increases differ between prepaid and credit meter consumers it must be remembered that there still remains a difference between the total amounts paid for the same electricity consumed. Credit meter users continue to pay a premium. Council again has budgeted for consumers to convert from conventional to

prepaid at a once-off cost of R500 including VAT. This cost actually pays for itself within twelve months and it is recommended that all domestic consumers take advantage of this offer. The daily rates will be held at current levels.

Water Tariff

A recent survey undertaken on behalf of the Provincial treasury has indicated that the domestic water tariffs of Knysna municipality are the highest of any B category municipality in the Western Cape. There is a very simple reason for this in that Knysna was the first municipality to experience water shortages in the province and the first to put in the high technology systems of desalination and reverse osmosis which are the future. The future tariff increases in our neighbours will soon begin to reflect ours.

The water tariff increase for all consumers will be 6% on the basic charge and 6% on the consumption charge.

2% of the increased tariff will be immediately allocated to the Capital Replacement Reserve (CRR) for water. National Treasury has decreed that all CRRs must be cash-backed and the anticipated costs associated with the water service, most specifically the need to expand the treatment works in Knysna, means that monies must be set aside now to mitigate the future costs of the works.

In last year's MTREF, comment was made that for the service to consider breaking even going forward, an increase in consumption and basic charges of 10% was required. Clearly with the introduction of the new GV that is out of the question, nevertheless an increase close to the inflation rate is required just for the service to stand still. After the drought scares of recent years, the infrastructures now in place require to be maintained and if this is not prioritised then charges of fruitless and wasteful will be levelled against the current Council. The 6% increase is considered reasonable in the circumstances given that to all intents and purposes we no longer have any water issues/concerns provided our major water courses continue to flow. If these rivers stop for any length of time our back-up systems of boreholes, reverse osmosis and desalination plants kick in.

Calculations show that the break-even cost per kilolitre for water is currently around R11/kl and we know that Knysna's current water tariffs are amongst the highest in the Western Cape and that the service already makes a deficit. The water and waste water (sewerage) service makes a combined deficit (excluding capital grants and transfers) over the MTREF of R1,3 million 2012/13; R1,7 million 2013/14 and R2,3 million 2014/15.

There is often an argument in political circles that the standard of service should be taken into account when calculating tariffs. This is a complete nonsense. Standards of service may play a minor element in the cost of the reticulation system, although that in itself is highly debatable, but it has nothing to do with the actual delivery mechanism and the amount consumed. The fact is that cross-subsidisation occurs from higher

consumption consumers and assessment rates. Poorer service standards ultimately feed back into property values and therefore into the property tax system.

Sewerage Tariff

The sewerage tariffs will increase by the same 6% as the basic water tariffs and the same principle of 2% of the increased revenue will be immediately channelled to the capital replacement reserve.

Sewerage is a major concern for the municipality going forward for the next five years and this is before major new expenditures will be required on a new treatment works. The recent leakage into the estuary has necessitated remedial repairs which will be incorporated into a minor upgrade to enable the works to extend its current lifespan until 2019. Beyond that a major upgrade will be required. The cost of this interim phase is some R47 million with Council having to fund approximately R12,4 million on its own. Council is legally obligated to maintain this operation at a level that prevents pollution of one of the world's great estuary's and we will not shirk our responsibility's in this regard but this does highlight the fact that technical infrastructure systems such as the one required are financially beyond what this local authority can in reality afford. There appears to be an irony in Knysna spending R47 million on a sophisticated sewerage system when the majority of the population only have very basic living conditions in the first instance.

Refuse Tariff

The refuse tariff will be increased by 3% for both domestic and business consumers. It should be remembered that 50% of the refuse charge for domestic consumers is already contained in the assessment rate payable.

A new innovation will be introduced later in the financial year in regard to business refuse. The refuse department will begin piloting a system whereby pictures will be taken of the amount of refuse picked up at businesses. The picture will be automatically attached to an account and immediately handed to the respective business owner as notice of an account to be rendered. The actual account will be billed as per normal. This innovation it is hoped will reduce the number of disputes that arise as to the quantum of refuse collected.

Minor Tariffs

All other tariffs will be increased by 7.5% on average. The reason for this increase above the recommended 6% is simply that the minor charges have been increased at a level below inflation for a number of prior years. They do not and have never been designed to reflect the costs of the services that are provided and in general only amount to some R6 million or 1.2% of revenue to Council.

Augmentations

Augmentations are charges levied on new developments to ensure that the Council infrastructure is up-graded to accommodate the 'augmented' demand. Two amendments are proposed to the current system both with

the intention of attracting and enhancing economic development in the municipality.

Firstly, if a new development is to be in an area regarded as previously disadvantaged then Council will encourage and support the development by delaying augmentations payable until the first unit, be it business or commercial, is utilised or occupied. If augmentations are however not paid at the correct time then the development will be shut down and all services switched off. This will require improved coordination between the planning and technical departments to ensure that suitable budget requirements are placed on the budget as the municipal infrastructure will still have to be paid for on an on-going basis.

Secondly, if the development is for a new business in the municipal area then the augmentation payable could be either waived or delayed, again until occupation. The waiver will apply to new businesses within an area. The delay would be for existing businesses expanding within the municipal area.

General Valuation

The new general valuation roll will be introduced from 1 July 2012. Currently the legal objection process is underway and the new Appeal board will begin its operations shortly.

As stated elsewhere in this MTREF this is the second valuation under the market related value system. Under the first valuation the middle to higher valued properties were affected most as they tended to be under-valued. In this valuation it is abundantly clear that the lower valued properties are most affected. This is the repeat of a trend that has been reported throughout the country. Two years ago the highest property value increases in the country were reported in Khayelitsha in Cape Town and more recently the same trend is being reported in Soweto. The reason is simply the growth in wealth being generated from property ownership burgeoning as a result of the entry into the full economy of people previously classified as disadvantaged. The process must obviously be fully supported but there is a reaction in that property is a store of value and as property prices operate on the supply and demand principle there is a concomitant increase in value.

Fascinatingly in Knysna the same principle of supply and demand is in evidence on an area basis at much higher levels. In the seaside areas of Buffels Bay, Noetzie and the rural areas throughout the municipality, there are quite significant value shifts upwards. The reason is that the national economic recession has prompted a sale in second properties by inland owners. These properties are in huge demand and therefore overall values have risen. As a contra to this there are areas within the municipality where values have fallen for mainly crime related reasons with resulting drops in rates payable.

Assessment Rates

Rebates:

Green rebate: this rebate is aimed at encouraging property owners to maintain the unique environment of Knysna as a natural place of calm whereby the natural beauty can be maintained. The rebate amounts to 20% off the normal domestic rates payable. It is aimed at properties located outside of the 'urban edge' as defined in the Knysna Spatial Development Framework. The rebate is granted after the submission of an auditable alien eradication plan. If the plan is not adhered to the rebate will be removed after the property(s) are inspected on an annual basis.

Heritage rebate: this rebate is designed to ensure that the cultural heritage that is Knysna is maintained going forward. A rebate will be granted to the owner of a property of cultural or heritage significance that is maintained in that style.

New Business rebate: this rebate is designed, as its name suggests, to attract new businesses into the municipality. The rebate operates in the form of a 100% rates rebate for a period not exceeding three years. During that period any new business owners currently without property in the Knysna municipal area who start businesses will be afforded the rates rebate upon application. The businesses will be re-assessed every six months to ensure they are still functioning in the manner originally envisaged when the rebate was first awarded.

The actual rate in the Rand remains exactly the same for domestic property owners. Obviously there are incidence shifts depending on location and on sales i.e. demand to live in the area and Council has endeavoured to cater for this as far as it can.

The first R15 000 reduction of value, which is the national government determined threshold continues. In addition Council has increased its own discretionary reduction of value from R15 000 to R50 000. This means that the first R65 000 of property value is exempted from any tax.

The domestic rebate of 20% remains in place.

The effect of these changes is as follows:

A property in Karatara with an average value of R80 000 will see its monthly rates charge increase by 66.67%. That is from R3.35 to R5.58 per month.

In Hornlee, a property with a new average value of R271 000 as opposed to the R53 000 in the previous roll will pay an increase 796% or in rand terms equates to a monthly account of R76.68 which has increased from R8.56.

In Knysna Heights, a property previously valued at R1 508 000 and with a new value of R 1 354 000 will pay R479.82 as opposed to R550.17 per month.

The impact changes differently in each suburb but the average occurs when a property value increases from R495 000 to R530 000. At that point with the new rebates the impact on a property is R0. Not surprisingly this impact occurs in Hornlee our biggest suburb.

To minimise the domestic incidence shift, council has had to consider increases in other tariffs.

It was proposed in the draft budget that accommodation establishments with less than 8 bedrooms would see an increase in the rate in the rand of 15%. However, this has been changed in the approved budget such that these establishments will remain on the domestic rate in the rand which is not being changed from the current year.

Commercial and industrial properties will have their rate in the rand increased by 15.4%, again the full increase is dependent upon the property value shift. For example property values in Knysna's light industrial area have fallen. It must also be noted that exercises undertaken by Council indicate that rentals in many commercial/industrial properties bear absolutely no relevance to property value. It appears that the property owners are inclined to blame Council for increases whilst in reality the municipal rates account is miniscule compared to the rentals being charged. The valuation roll is open to the public and Council will happily assist in informing tenants of the rates payable on the buildings they are renting.

Council has also completely revised the pension rebates on offer. Previously the rebates ranged from 80% at maximum of R5 000 per month to 10% at a maximum of R10 000 per month. The new rebates range from 80% up to R6 500 per month to 5% at R15 000 per month. This we believe will go a long way to assisting pensioners to be able to remain in their homes.

National, Provincial & District priorities

The National, Provincial and District Context

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery challenges we face in Knysna and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macroeconomic stability, but our own local economy is still plagued with high levels of unemployment and poverty.

The following table shows the allocations to Knysna Municipality as set out in the National Division of Revenue Act of 2012 in the MTEF period;

National Government

Allocations 2012/13 – 2014/15			
	Medium Term Estimates		
	2012/13 Allocation (R'000)	**2013/14 Allocation (R'000)**	**2014/15 Allocation (R'000)**
Total Allocation	**63 183**	**82 929**	**95 426**
Equitable share	30 859	33 272	36 395

Infrastructure	29 274	47 507	56 631
Capacity building and restructuring	3 050	2 150	2 400

Provincial Government

	2012/13 Allocation (R'000)	2013/14 Allocation (R'000)	2014/15 Allocation (R'000)
Total Provincial Transfers to Knysna	42 834	35 611	37 388

Budget-related policies

Last year Council introduced a Funding and Reserves Policy. The salient points of this policy are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all inclusive and the conditions of all provisions must be cash met where required. A number of indicators are also highlighted to ensure the municipality has enough cash to continue operations. The policy notwithstanding, the primary financial approach of Council, remains that assets should be in the ground and not in the bank.

The financial requirements of the policy have been reported upon each month within the broader Section 71 report. This is a report which I am delighted to say continues to garner praise and laurels from external bodies who look at us, and it keeps us on the straight and narrow path of cash is king.

With regard to our Reserves a number of cash funded reserves are now in place. They include the Capital Replacement Reserve (CRR) and the employee benefits reserve which will ensure sufficient cash is available to pay post-retirement employee benefits in the future.

Council has also taken the very important step of introducing for the first time a Budget Policy. This policy reinforces much of what is contained in the MFMA and regulates inter alia:

1. The preparation of the budget;
2. The shifting or virement of funds;
3. The timing and nature of adjustment budgets;
4. Unforeseen and unavoidable expenditure, etc.;
5. Establish and maintain procedures to adhere to budget processes.

The main principles underpinning the policy are:

- that the municipality may not budget for a cash deficit;
- expenses may only be incurred in terms of an approved budget;
- the budget must always be within the IDP framework;

- capital expenditure must distinguish between replacement and new assets
- capital funding must be available
- loans must be linked to an asset and CRRs must be cash-backed.

By following this policy future Council's should be able to produce budgets that are realistic, practical and affordable to the residents. This is a major step forward for the municipality.

In respect of the other budget policies there have been minor changes as always, mainly to increase local supply chain rules and to redefine basic service provision.

Conclusion

The 2012/13 budget for Knysna Municipality is an austerity budget. Eskom continues to impact upon us unabated and we are still feeling the negative effects of the economic downturn.

The budget encompasses the financial effects of the new general valuation roll and by minimising new capital expenditures and new borrowings it will allow Council to enter the new IDP in alignment with the NDPG and ARUP processes to ensure all capital planning is focussed seamlessly on the 2030 long term future of the municipality. This in turn is the catalyst to allow Council better access to even more funding going forward.

Section 4 – Annual budget tables

The intention of this Section is two-fold.

Firstly, the following tables form the basis of the Council resolution approving the annual budget for 2012/2013:

- Table A2: Budgeted Financial Performance (expenditure by standard classification)
- Table A3: Budgeted Financial Performance (expenditure by municipal vote)
- Table A4: Budgeted Financial Performance (revenue by source)
- Table A5: Budgeted Capital Expenditure for both multi-year and single year appropriations by vote, standard classification and funding

Secondly, this section presents and explains the various tables that must be compiled as required by National Treasury. Some of the tables are variations on a theme which will allow NT to put out macro statistics. Whilst this is a good practice, it can become a tad repetitive at the micro or local level. It has therefore been decided to only comment on a table when there is something important or relevant to say.

Table A1 - Budget Summary

WC048 Knysna - Table A1 Budget Summary

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Financial Performance										
Property rates	82 417	110 522	118 810	126 703	127 403	127 403	127 403	143 391	152 430	159 851
Service charges	156 315	175 581	202 018	238 664	225 680	225 680	225 680	247 930	273 140	304 336
Investment revenue	7 573	5 876	5 915	6 786	6 786	6 786	6 786	7 701	9 309	10 934
Transfers recognised - operational	49 697	61 732	62 943	70 210	93 471	93 471	93 471	70 368	72 695	81 048
Other own revenue	22 189	26 929	75 574	18 813	19 844	19 844	19 844	19 011	19 515	20 678
Total Revenue (excluding capital transfers and contributions)	318 191	380 640	465 259	461 176	473 184	473 184	473 184	488 401	527 089	576 847
Employee costs	100 602	114 453	125 016	143 362	139 427	139 427	139 427	156 091	165 405	173 657
Remuneration of councillors	4 009	4 302	4 588	5 899	5 779	5 779	5 779	6 078	6 382	6 701
Depreciation & asset impairment	29 131	87 695	18 676	33 817	22 053	22 053	22 053	21 910	21 671	20 937
Finance charges	17 243	16 572	17 204	20 363	16 043	16 043	16 043	16 309	14 462	12 597
Materials and bulk purchases	66 548	82 914	100 264	123 559	115 894	115 894	115 894	133 928	152 626	176 158
Transfers and grants	5 003	5 357	5 843	5 791	5 871	5 871	5 871	5 461	5 552	5 644
Other expenditure	104 671	156 152	133 038	138 828	162 167	162 167	162 167	149 823	155 300	167 855
Total Expenditure	327 208	467 446	404 629	471 618	467 234	467 234	467 234	489 599	521 398	563 549
Surplus/(Deficit)	(9 017)	(86 806)	60 630	(10 442)	5 950	5 950	5 950	(1 198)	5 691	13 298
Transfers recognised - capital	34 193	65 195	36 888	30 243	32 889	32 889	32 889	36 328	45 845	51 766
Contributions recognised - capital & contributed a	–	–	823	–	477	477	477	–	–	–
Surplus/(Deficit) after capital transfers & contributions	25 176	(21 611)	98 341	19 801	39 316	39 316	39 316	35 130	51 536	65 064
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	25 176	(21 611)	98 341	19 801	39 316	39 316	39 316	35 130	51 536	65 064
Capital expenditure & funds sources										
Capital expenditure	66 078	99 783	54 213	63 011	85 420	69 804	69 804	71 083	65 275	78 123
Transfers recognised - capital	34 192	65 195	36 888	30 243	29 946	29 946	29 946	36 328	45 845	51 766
Public contributions & donations	–	–	–	–	477	477	477	–	–	–
Borrowing	31 886	24 948	6 990	16 645	29 945	14 329	14 329	20 375	7 809	13 057
Internally generated funds	–	9 640	10 335	16 123	25 052	25 052	25 052	14 380	11 621	13 300
Total sources of capital funds	66 078	99 783	54 213	63 011	85 420	69 804	69 804	71 083	65 275	78 123
Financial position										
Total current assets	118 345	101 894	126 702	82 164	100 980	112 275	112 275	93 062	104 457	120 991
Total non current assets	434 475	965 426	1 056 965	570 593	1 122 320	1 106 704	1 106 704	1 166 092	1 212 424	1 272 622
Total current liabilities	95 222	83 028	87 792	70 940	76 605	72 283	72 283	79 284	86 509	94 400
Total non current liabilities	208 699	209 988	223 231	219 679	230 346	230 346	230 346	228 392	227 357	231 134
Community wealth/Equity	248 899	774 304	872 644	362 139	916 349	916 349	916 349	951 479	1 003 015	1 068 078
Cash flows										
Net cash from (used) operating	51 934	68 664	89 442	80 484	62 522	62 522	62 522	69 810	85 439	99 868
Net cash from (used) investing	(64 687)	(101 304)	(54 322)	(70 907)	(78 871)	(67 576)	(67 576)	(81 115)	(67 858)	(80 940)
Net cash from (used) financing	31 429	3 999	5 411	(5 997)	(5 997)	(5 997)	(5 997)	(9 423)	(7 792)	(4 104)
Cash/cash equivalents at the year end	45 419	16 778	57 309	9 720	34 963	46 257	46 257	25 530	35 319	50 143
Cash backing/surplus reconciliation										
Cash and investments available	57 238	30 073	72 292	33 463	51 642	62 937	62 937	52 485	65 067	82 973
Application of cash and investments	41 561	21 147	66 147	12 691	21 906	37 522	21 906	49 526	64 284	82 303
Balance - surplus (shortfall)	15 677	8 926	6 146	20 772	29 736	25 415	41 031	2 958	784	671
Asset management										
Asset register summary (WDV)	422 308	949 482	1 039 117	547 025	1 102 483	1 086 867	1 136 040	1 136 040	1 179 644	1 236 830
Depreciation & asset impairment	29 131	87 695	18 676	33 817	22 053	22 053	21 910	21 910	21 671	20 937
Renewal of Existing Assets	22 124	33 836	21 845	41 902	57 402	41 786	41 786	41 244	19 620	24 644
Repairs and Maintenance	42 153	43 471	49 707	60 772	60 815	60 815	68 602	68 602	73 477	78 800
Free services										
Cost of Free Basic Services provided	10 115	13 621	18 058	19 702	18 747	17 890	21 661	21 661	25 512	30 263
Revenue cost of free services provided	30 400	31 739	33 666	38 042	37 658	37 658	37 817	37 817	39 139	41 645
Households below minimum service level										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Total revenue before capital transfers and contributions will increase by 5.9% from last years' original budget and 3.2% from the final estimate. Expenditure will have risen 3.8% and 4.8% on the same basis.

Employee costs have risen by 11.9% on the 2011/12 adjustment budget figure. This includes an annual increase of 7% on basic remuneration as well as including provision for filling budgeted vacant posts from 1 July 2012. These are further broken down in Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits'.

The repairs and maintenance budget will increase by 12.8% on the adjusted budget figure, these being made up of increases in the employee

related component of 10.6% and in other expenditure of 15.5%. The increase is well above the required levels and once again reflects the Council commitment to maintaining its assets for service delivery rather than spending moneys on "nice to have's" but which are possibly non-essential to the community. This is highlighted in Annexure 2, 'Supporting Table SA1: Supporting Detail to Budgeted Performance'.

Table A2 - Budgeted Financial Performance (by standard classification)

WC048 Knysna - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue - Standard										
Governance and administration		101 561	136 039	196 226	151 329	155 884	155 884	164 694	195 769	214 289
Executive and council		5 358	10 635	61 997	5 705	5 830	5 830	5 986	6 398	7 030
Budget and treasury office		92 188	119 247	127 852	136 851	137 452	137 452	154 391	165 144	174 472
Corporate services		4 014	6 158	6 377	8 773	12 602	12 602	4 317	24 227	32 787
Community and public safety		46 630	46 096	44 459	52 700	71 342	71 342	52 394	49 520	48 923
Community and social services		953	1 381	1 275	3 863	3 863	3 863	3 624	6 825	3 187
Sport and recreation		708	1 545	873	943	1 143	1 143	966	1 034	1 111
Public safety		2 782	4 385	2 539	2 366	3 246	3 246	3 583	4 040	5 832
Housing		42 182	38 785	39 772	45 528	63 090	63 090	44 221	37 621	38 793
Health		3	–	–	–	–	–	–	–	–
Economic and environmental services		15 055	16 559	6 723	7 656	8 283	8 283	9 505	7 425	8 518
Planning and development		1 755	2 263	1 869	2 038	2 038	2 038	1 945	2 083	2 174
Road transport		13 300	14 296	4 764	5 618	6 095	6 095	7 560	5 342	6 344
Environmental protection		–	–	90	–	150	150	–	–	–
Trading services		189 139	247 142	255 563	279 734	271 041	271 041	298 136	320 220	356 883
Electricity		102 950	126 129	146 953	183 126	173 618	173 618	191 287	210 397	238 331
Water		47 992	91 562	68 900	48 447	49 319	49 319	60 531	68 907	73 493
Waste water management		19 121	12 719	21 278	27 649	27 592	27 592	24 783	18 365	21 077
Waste management		19 076	16 733	18 431	20 512	20 512	20 512	21 535	22 551	23 982
Other	4	–	–	–	–	–	–	–	–	–
Total Revenue - Standard	2	352 384	445 835	502 970	491 419	506 550	506 550	524 729	572 934	628 613
Expenditure - Standard										
Governance and administration		47 102	165 560	59 952	71 937	68 110	68 110	86 883	91 342	95 712
Executive and council		20 563	126 689	33 905	30 777	29 987	29 987	32 379	33 382	34 815
Budget and treasury office		7 407	11 308	6 818	15 720	14 484	14 484	19 710	21 565	23 196
Corporate services		19 132	27 563	19 228	25 440	23 639	23 639	34 795	36 396	37 701
Community and public safety		80 753	92 458	95 657	107 451	122 835	122 835	101 712	103 739	111 285
Community and social services		7 968	9 006	10 479	12 101	11 381	11 381	12 726	12 820	13 493
Sport and recreation		10 939	10 300	12 694	14 561	13 856	13 856	16 152	16 556	17 416
Public safety		16 764	19 359	22 631	24 740	25 921	25 921	27 316	28 924	30 680
Housing		42 029	50 484	45 991	51 774	67 327	67 327	41 008	40 669	44 688
Health		3 052	3 310	3 862	4 276	4 351	4 351	4 511	4 770	5 009
Economic and environmental services		35 362	29 092	32 103	36 862	39 318	39 318	37 059	38 421	39 700
Planning and development		5 081	4 995	6 017	6 477	7 682	7 682	7 150	7 539	7 912
Road transport		30 282	23 503	25 172	29 059	30 147	30 147	28 041	28 918	29 730
Environmental protection		–	594	914	1 327	1 489	1 489	1 867	1 963	2 057
Trading services		163 992	180 336	216 918	255 369	236 971	236 971	263 945	287 896	316 852
Electricity		88 903	105 562	121 827	159 045	142 825	142 825	165 534	184 632	208 339
Water		35 975	36 162	45 902	46 112	44 679	44 679	49 407	51 858	54 622
Waste water management		19 723	21 356	23 164	28 537	28 449	28 449	27 760	29 129	30 580
Waste management		19 390	17 256	26 025	21 674	21 018	21 018	21 245	22 277	23 311
Other	4	–	–	–	–	–	–	–	–	–
Total Expenditure - Standard	3	327 208	467 446	404 629	471 618	467 234	467 234	489 599	521 398	563 549
Surplus/(Deficit) for the year		25 176	(21 611)	98 341	19 801	39 316	39 316	35 130	51 536	65 064

References

1. Government Finance Statistics Functions and Sub-functions are standardised to assist the compilation of national and international accounts for comparison purposes

2. Total Revenue by standard classification must reconcile to Total Operating Revenue shown in Budgeted Financial Performance (revenue and expenditure)

3. Total Expenditure by Standard Classification must reconcile to Total Operating Expenditure shown in Budgeted Financial Performance (revenue and expenditure)

4. All amounts must be classified under a standard classification (modified GFS). The GFS function 'Other' is only for Abbatoirs, Air Transport, Markets and Tourism - and if used must be supported by footnotes. Nothing else may be placed under 'Other'. Assign associate share to relevant classification

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

WC048 Knysna - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue by Vote	1									
Vote 1 - Executive & Council		5 358	10 635	61 997	5 705	5 830	5 830	5 986	6 398	7 030
Vote 2 - Corporate Services		3 103	3 277	2 664	3 186	3 644	3 644	3 147	3 250	3 465
Vote 3 - Financial Services		92 224	119 275	128 001	136 881	137 482	137 482	154 418	165 176	174 507
Vote 4 - Strategic Services		398	1 643	154	–	–	–	–	–	–
Vote 5 - Planning & Development		43 937	41 068	44 042	52 566	72 998	72 998	46 166	59 704	69 216
Vote 6 - Community Services		27 124	26 090	27 827	31 964	33 695	33 695	33 806	38 635	37 112
Vote 7 - Electrical Services		103 153	128 368	147 030	183 126	173 618	173 618	191 287	210 497	239 831
Vote 8 - Technical Services		77 087	115 480	91 256	77 991	79 283	79 283	89 919	89 274	97 452
Total Revenue by Vote	2	352 384	445 835	502 970	491 419	506 550	506 550	524 729	572 934	628 613
Expenditure by Vote *to be appropriated*	1									
Vote 1 - Executive & Council		20 563	126 689	33 905	30 777	29 987	29 987	32 379	33 382	34 815
Vote 2 - Corporate Services		8 273	9 850	9 600	12 084	13 518	13 518	18 501	19 430	20 036
Vote 3 - Financial Services		6 839	10 146	5 316	16 017	14 577	14 577	20 263	22 101	23 760
Vote 4 - Strategic Services		6 392	11 241	3 461	–	–	–	–	–	–
Vote 5 - Planning & Development		48 311	58 170	56 530	65 422	80 796	80 796	54 718	55 088	59 788
Vote 6 - Community Services		59 755	61 973	78 671	81 199	80 230	80 230	84 368	87 631	91 911
Vote 7 - Electrical Services		90 724	108 407	124 882	162 434	146 071	146 071	174 135	193 855	218 313
Vote 8 - Technical Services		86 352	80 970	92 265	103 686	102 054	102 054	105 234	109 911	114 927
Total Expenditure by Vote	2	327 208	467 446	404 629	471 618	467 234	467 234	489 599	521 398	563 549
Surplus/(Deficit) for the year	2	25 176	(21 611)	98 341	19 801	39 316	39 316	35 130	51 536	65 064

References

1. Insert 'Vote'; e.g. department, if different to standard classification structure

2. Must reconcile to Budgeted Financial Performance (revenue and expenditure)

3. Assign share in 'associate' to relevant Vote

The various points of note within this table are the following.

Revenue

- Vote 3 - Financial Services: The main increase is as a result of the impact of the new valuation roll.
- Vote 5 - Planning & Development: The variations from the original to the adjusted budget in 2011/12 and then to the proposed budget for 2012/13 are linked to the variations in the provincial grant for housing as well as the roll out of the NDPG in the outer years.
- Vote 7 – Electrical Services: The growth in revenue is as a direct result of increases in tariffs linked to the increased tariff from Eskom.
- Vote 8 – Technical Services: Main increases is as a result of increased grants allocated by national government for infrastructure development.

Expenditure

- Vote 2 – Corporate Services: Lease costs for rentals of buildings have been centralised in this vote.
- Vote 3 - Financial Services: Contributions to various reserves and provisions (most notably bad debt) and budgeted posts not filled in previous year.
- Vote 5 - Planning & Development: The impact of the varying levels of provincial funding received for housing.
- Vote 7 – Electrical Services: Primarily as a result of the Eskom tariff increases

Table A4 - Budgeted Financial Performance (revenue and expenditure)

WC048 Knysna - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue By Source											
Property rates	2	80 793	108 597	116 791	124 931	125 631	125 631	125 631	140 834	149 745	157 032
Property rates - penalties & collection charges		1 625	1 926	2 019	1 772	1 772	1 772	1 772	2 557	2 685	2 819
Service charges - electricity revenue	2	93 588	117 077	138 946	173 915	160 059	160 059	160 059	178 007	199 403	226 421
Service charges - water revenue	2	31 915	35 479	37 925	39 278	40 150	40 150	40 150	43 113	45 592	48 217
Service charges - sanitation revenue	2	13 494	8 460	9 121	9 523	9 523	9 523	9 523	10 001	10 573	11 182
Service charges - refuse revenue	2	14 400	11 433	12 715	13 506	13 506	13 506	13 506	13 590	14 112	14 798
Service charges - other		2 919	3 132	3 310	2 442	2 442	2 442	2 442	3 219	3 460	3 718
Rental of facilities and equipment		3 551	3 972	4 069	4 853	4 853	4 853	4 853	4 598	4 919	5 268
Interest earned - external investments		7 573	5 876	5 915	6 786	6 786	6 786	6 786	7 701	9 309	10 934
Interest earned - outstanding debtors		4 173	3 777	3 873	3 683	3 683	3 683	3 683	4 034	3 712	3 813
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines		2 513	2 125	2 338	2 282	3 162	3 162	3 162	3 506	3 845	4 162
Licences and permits		1 386	1 379	1 719	1 787	1 787	1 787	1 787	1 798	1 941	2 110
Agency services		1 692	1 689	1 716	1 698	1 698	1 698	1 698	1 691	1 700	1 709
Transfers recognised - operational		49 697	61 732	62 943	70 210	93 471	93 471	93 471	70 368	72 695	81 048
Other revenue	2	6 333	13 744	60 317	4 344	4 495	4 495	4 495	3 198	3 248	3 416
Gains on Disposal of Assets		2 540	243	1 541	166	166	166	166	186	150	200
Total Revenue (excluding capital transfers and contributions)		318 191	380 640	465 259	461 176	473 184	473 184	473 184	488 401	527 089	576 847
Expenditure By Type											
Employee related costs	2	100 602	114 453	125 016	143 362	139 427	139 427	139 427	156 091	165 405	173 657
Remuneration of councillors		4 009	4 302	4 588	5 899	5 779	5 779	5 779	6 078	6 382	6 701
Debt impairment	3	6 205	12 107	17 259	13 053	13 430	13 430	13 430	20 220	21 542	23 106
Depreciation & asset impairment	2	29 131	87 695	18 676	33 817	22 053	22 053	22 053	21 910	21 671	20 937
Finance charges		17 243	16 572	17 204	20 363	16 043	16 043	16 043	16 309	14 462	12 597
Bulk purchases	2	53 798	69 092	85 586	109 455	101 055	101 055	101 055	119 175	137 051	159 664
Other materials	8	12 750	13 823	14 679	14 104	14 839	14 839	14 839	14 753	15 575	16 494
Contracted services		12 262	12 220	12 806	12 726	13 508	13 508	13 508	15 072	15 870	16 727
Transfers and grants		5 003	5 357	5 843	5 791	5 871	5 871	5 871	5 461	5 552	5 644
Other expenditure	4, 5	86 204	131 784	102 435	113 049	135 229	135 229	135 229	114 531	117 888	128 022
Loss on disposal of PPE		–	41	538	–	–	–	–	–	–	–
Total Expenditure		327 208	467 446	404 629	471 618	467 234	467 234	467 234	489 599	521 398	563 549
Surplus/(Deficit)		(9 017)	(86 806)	60 630	(10 442)	5 950	5 950	5 950	(1 198)	5 691	13 298
Transfers recognised - capital		34 193	65 195	36 888	30 243	32 889	32 889	32 889	36 328	45 845	51 766
Contributions recognised - capital	6	–	–	823	–	477	477	477	–	–	–
Contributed assets		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions		25 176	(21 611)	98 341	19 801	39 316	39 316	39 316	35 130	51 536	65 064
Taxation		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after taxation		25 176	(21 611)	98 341	19 801	39 316	39 316	39 316	35 130	51 536	65 064
Attributable to minorities		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) attributable to municipality		25 176	(21 611)	98 341	19 801	39 316	39 316	39 316	35 130	51 536	65 064
Share of surplus/ (deficit) of associate	7	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year		25 176	(21 611)	98 341	19 801	39 316	39 316	39 316	35 130	51 536	65 064

References

1. Classifications are revenue sources and expenditure type

2. Detail to be provided in Table SA1

3. Previously described as 'bad or doubtful debts' - amounts shown should reflect the change in the provision for debt impairment

4. Expenditure type components previously shown under repairs and maintenance should be allocated back to the originating expenditure group/item; e.g. employee costs

5. Repairs & maintenance detailed in Table A9 and Table SA34c

6. Contributions are funds provided by external organisations to assist with infrastructure development; e.g. developer contributions (detail to be provided in Table SA1)

7. Equity method

8. All materials not part of 'bulk' e.g road making materials, pipe, cable etc.

The most interesting element in the above table is the percentage of electricity bulk purchases to electricity revenue. There have been a number of commentators in Knysna who have accused the municipality of exploiting the electricity tariff to generate higher “profits”. The table below, (figures taken from A4 above) in fact shows the complete opposite and that Knysna has done exactly what was asked of it by NERSA and held tariffs down—i.e. subsidised tariffs from the rates.

(R '000)	2009/10	2010/11	2011/12	2012/13	2013/14	201415
Bulk charge	69 092	85 586	101 055	119 175	137 051	159 664
Electricity revenue	117 077	138 946	160 059	178 007	199 403	226 421
% bulk/rev	59.0	61.6	63.1	66.9	68.7	70.5

A similar argument has existed regarding rates and salary increases. The table below shows the relationship between property rates and employee costs since 2009/10 through the duration of the MTREF.

(R '000)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Property rates	108 597	116 791	125 631	140 834	149 745	157 032
Employee costs	114 453	125 016	139 341	156 091	165 405	173 657
% rates/ empl costs	94.9	93.4	90.2	90.3	90.6	90.5

What this table shows is that Council has stabilised the relationship between rates and salaries at 90%. It is almost impossible in these days of national collective bargaining to maintain the rates/salaries ratio at anything like a constant. The MTREF is indicating that with very strict staff monitoring regarding the creation of new posts, the ratio can be maintained at 90% without hampering service delivery. This table obviously precludes major shifts in inflation or bargaining agreements.

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

WC048 Knysna - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital expenditure - Vote										
Multi-year expenditure *to be appropriated*	2									
Vote 1 - Executive & Council		–	–	–	500	500	500	1 000	2 500	3 500
Vote 2 - Corporate Services		–	–	–	–	–	–	–	–	–
Vote 3 - Financial Services		–	–	–	4 000	4 072	1 180	5 892	1 000	–
Vote 4 - Strategic Services		–	–	–	–	–	–	–	–	–
Vote 5 - Planning & Development		19 530	1 818	4 015	11 404	10 720	10 720	10 000	22 544	27 780
Vote 6 - Community Services		–	–	–	–	–	–	–	–	–
Vote 7 - Electrical Services		–	6 592	1 098	8 245	9 343	9 343	2 573	–	–
Vote 8 - Technical Services		617	4 336	16 995	16 543	24 927	18 927	19 984	15 672	17 901
Capital multi-year expenditure sub-total	7	20 148	12 746	22 108	40 692	49 562	40 670	39 449	41 716	49 181
Single-year expenditure *to be appropriated*	2									
Vote 1 - Executive & Council		52	2 025	354	2 909	2 095	2 095	2 502	1 761	1 710
Vote 2 - Corporate Services		35	32	202	264	255	255	24	26	28
Vote 3 - Financial Services		407	701	3 233	1 068	1 918	1 918	615	637	660
Vote 4 - Strategic Services		2 019	4 698	–	–	–	–	–	–	–
Vote 5 - Planning & Development		667	2 205	3 164	2 041	3 632	3 632	2 232	2 462	1 595
Vote 6 - Community Services		8 952	1 471	587	4 505	5 646	5 646	3 923	9 122	6 299
Vote 7 - Electrical Services		7 311	6 823	4 431	2 739	10 599	3 875	13 143	4 446	7 128
Vote 8 - Technical Services		26 487	69 081	20 135	8 793	11 713	11 713	9 195	5 105	11 522
Capital single-year expenditure sub-total		45 930	87 037	32 106	22 319	35 858	29 134	31 634	23 559	28 942
Total Capital Expenditure - Vote		66 078	99 783	54 213	63 011	85 420	69 804	71 083	65 275	78 123
Capital Expenditure - Standard										
Governance and administration		3 194	7 747	7 766	13 703	17 720	14 828	10 583	25 099	35 878
Executive and council		52	2 025	354	3 409	2 595	2 595	3 502	4 261	5 210
Budget and treasury office		229	54	634	1 878	1 846	1 846	1 515	67	70
Corporate services		2 914	5 668	6 777	8 416	13 279	10 387	5 566	20 771	30 598
Community and public safety		24 151	6 445	6 561	12 663	10 480	10 480	14 335	16 294	12 202
Community and social services		1 100	353	58	2 900	2 856	2 856	1 903	7 994	5 934
Sport and recreation		390	31	–	–	350	350	240	–	–
Public safety		2 503	2 071	908	805	743	743	–	888	1 733
Housing		20 158	3 990	5 595	8 958	6 531	6 531	12 192	7 412	4 535
Health		–	–	–	–	–	–	–	–	–
Economic and environmental services		5 397	12 874	1 470	4 942	6 594	6 594	3 821	4 005	2 214
Planning and development		28	26	1	–	–	–	–	–	–
Road transport		5 369	12 848	1 456	4 942	6 594	6 594	3 821	4 005	2 214
Environmental protection		–	–	13	–	–	–	–	–	–
Trading services		33 336	72 717	38 417	31 703	50 626	37 902	42 344	19 877	27 829
Electricity		7 115	11 486	4 717	10 984	19 882	13 158	15 716	4 358	5 395
Water		14 457	59 943	25 869	7 093	7 200	7 200	10 235	14 072	19 627
Waste water management		7 220	485	7 712	13 026	22 513	16 513	14 893	1 447	2 807
Waste management		4 544	803	120	600	1 031	1 031	1 500	–	–
Other		–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Standard	3	66 078	99 783	54 213	63 011	85 420	69 804	71 083	65 275	78 123
Funded by:										
National Government		10 840	62 804	33 163	22 523	25 546	25 546	25 870	40 845	48 766
Provincial Government		20 374	1 824	3 106	7 720	3 935	3 935	10 458	5 000	3 000
District Municipality		2 565	–	200	–	–	–	–	–	–
Other transfers and grants		413	567	420	–	465	465	–	–	–
Transfers recognised - capital	4	34 192	65 195	36 888	30 243	29 946	29 946	36 328	45 845	51 766
Public contributions & donations	5	–	–	–	–	477	477	–	–	–
Borrowing	6	31 886	24 948	6 990	16 645	29 945	14 329	20 375	7 809	13 057
Internally generated funds		–	9 640	10 335	16 123	25 052	25 052	14 380	11 621	13 300
Total Capital Funding	7	66 078	99 783	54 213	63 011	85 420	69 804	71 083	65 275	78 123

References

1. Municipalities may choose to appropriate for capital expenditure for three years or for one year (if one year appropriation projected expenditure required for yr2 and yr3).

2. Include capital component of PPP unitary payment. Note that capital transfers are only appropriated to municipalities for the budget year

3. Capital expenditure by standard classification must reconcile to the appropriations by vote

4. Must reconcile to supporting table SA20 and to Budgeted Financial Performance (revenue and expenditure)

5. Must reconcile to Budgeted Financial Performance (revenue and expenditure)

6. Include finance leases and PPP capital funding component of unitary payment - total borrowing/repayments to reconcile to changes in Table SA17

7. Total Capital Funding must balance with Total Capital Expenditure

8. Include any capitalised interest (MFMA section 46) as part of relevant capital budget

Table A6 - Budgeted Financial Position

The following three tables namely A6, A7 and A8 below are probably the most important in this whole document. As a result all comments have been reserved until after table A8 and refer to all three of the tables.

WC048 Knysna - Table A6 Budgeted Financial Position

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
ASSETS										
Current assets										
Cash		183	782	26 231	2 372	33 456	44 750	12 723	17 512	27 336
Call investment deposits	1	60 707	26 182	31 078	8 048	1 507	1 507	12 807	17 807	22 807
Consumer debtors	1	35 223	39 626	43 062	60 982	60 982	60 982	62 058	63 183	64 369
Other debtors		19 792	33 501	24 045	8 500	2 943	2 943	3 237	3 561	3 917
Current portion of long-term receivables		121	118	63	232	63	63	65	70	75
Inventory	2	2 320	1 685	2 223	2 030	2 030	2 030	2 172	2 324	2 486
Total current assets		118 345	101 894	126 702	82 164	100 980	112 275	93 062	104 457	120 991
Non current assets										
Long-term receivables		329	463	467	500	505	505	445	380	310
Investments		11 819	13 295	14 984	23 043	16 680	16 680	26 955	29 748	32 830
Investment property		109	142 103	160 441	89	160 441	160 441	160 441	160 441	160 441
Investment in Associate		–	–	–	–	–	–	–	–	–
Property, plant and equipment	3	421 788	807 201	878 587	546 936	941 954	926 338	975 553	1 019 160	1 076 346
Agricultural		–	–	–	–	–	–	–	–	–
Biological		–	–	–	–	–	–	–	–	–
Intangible		412	178	88	–	88	88	46	43	43
Other non-current assets		19	2 187	2 398	25	2 652	2 652	2 652	2 652	2 652
Total non current assets		434 475	965 426	1 056 965	570 593	1 122 320	1 106 704	1 166 092	1 212 424	1 272 622
TOTAL ASSETS		552 820	1 067 320	1 183 667	652 757	1 223 299	1 218 978	1 259 154	1 316 881	1 393 613
LIABILITIES										
Current liabilities										
Bank overdraft	1	15 471	10 186	–	–	–	–	–	–	–
Borrowing	4	12 603	14 458	17 181	15 162	15 162	15 162	16 678	18 346	20 181
Consumer deposits		8 183	8 475	9 103	9 795	9 795	9 795	10 774	11 852	13 037
Trade and other payables	4	49 254	35 736	43 655	33 244	38 909	34 587	36 544	39 496	42 686
Provisions		9 711	14 174	17 852	12 739	12 739	12 739	15 287	16 816	18 497
Total current liabilities		95 222	83 028	87 792	70 940	76 605	72 283	79 284	86 509	94 400
Non current liabilities										
Borrowing		154 876	155 997	157 974	158 555	152 935	152 935	141 016	130 479	123 355
Provisions		53 822	53 992	65 258	61 124	77 411	77 411	87 376	96 878	107 779
Total non current liabilities		208 699	209 988	223 231	219 679	230 346	230 346	228 392	227 357	231 134
TOTAL LIABILITIES		303 921	293 017	311 023	290 618	306 951	302 630	307 676	313 866	325 534
NET ASSETS	5	248 899	774 304	872 644	362 139	916 349	916 349	951 479	1 003 015	1 068 078
COMMUNITY WEALTH/EQUITY										
Accumulated Surplus/(Deficit)		244 497	769 883	854 489	351 530	902 691	902 691	917 600	960 176	1 013 549
Reserves	4	4 402	4 420	18 156	10 608	13 658	13 658	33 879	42 839	54 529
Minorities' interests		–	–	–	–	–	–			
TOTAL COMMUNITY WEALTH/EQUITY	5	248 899	774 304	872 644	362 139	916 349	916 349	951 479	1 003 015	1 068 078

References

1. Detail to be provided in Table SA3

2. Include completed low cost housing to be transferred to beneficiaries within 12 months

3. Include 'Construction-work-in-progress' (disclosed separately in annual financial statements)

4. Detail to be provided in Table SA3. Includes reserves to be funded by statute.

5. Net assets must balance with Total Community Wealth/Equity

Table A7 - Budgeted Cash Flows

WC048 Knysna - Table A7 Budgeted Cash Flows

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Ratepayers and other		244 486	271 980	334 196	369 442	359 100	359 100	385 294	418 233	456 204
Government - operating	1	49 697	61 732	62 943	70 210	93 125	93 125	70 053	72 695	81 048
Government - capital	1	34 193	65 195	36 888	30 243	28 474	28 474	35 870	45 845	51 766
Interest		7 573	5 876	5 915	5 073	6 786	6 786	11 735	13 021	14 747
Dividends		–	–	–	–	–	–	–	–	–
Payments										
Suppliers and employees		(261 769)	(314 189)	(327 463)	(374 132)	(408 920)	(408 920)	(411 372)	(444 340)	(485 656)
Finance charges		(17 243)	(16 572)	(17 193)	(20 352)	(16 043)	(16 043)	(16 309)	(14 462)	(12 597)
Transfers and Grants	1	(5 003)	(5 357)	(5 843)	–	–	–	(5 461)	(5 552)	(5 644)
NET CASH FROM/(USED) OPERATING ACTIVITIES		51 934	68 664	89 442	80 484	62 522	62 522	69 810	85 439	99 868
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE		2 520	243	1 560	166	166	166	186	150	200
Decrease (Increase) in non-current debtors		–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		220	(70)	710	65	65	65	58	60	65
Decrease (increase) in non-current investments		(1 335)	(1 694)	(3 203)	(8 127)	1 997	1 997	(10 275)	(2 793)	(3 082)
Payments										
Capital assets		(66 092)	(99 783)	(53 390)	(63 011)	(81 099)	(69 804)	(71 083)	(65 275)	(78 123)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(64 687)	(101 304)	(54 322)	(70 907)	(78 871)	(67 576)	(81 115)	(67 858)	(80 940)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans		–	–	–	–	–	–	–	–	–
Borrowing long term/refinancing		44 579	15 515	20 111	8 245	8 245	8 245	4 759	7 809	13 057
Increase (decrease) in consumer deposits		239	292	629	420	420	420	979	1 077	1 185
Payments										
Repayment of borrowing		(13 389)	(11 807)	(15 329)	(14 662)	(14 662)	(14 662)	(15 162)	(16 678)	(18 346)
NET CASH FROM/(USED) FINANCING ACTIVITIES		31 429	3 999	5 411	(5 997)	(5 997)	(5 997)	(9 423)	(7 792)	(4 104)
NET INCREASE/ (DECREASE) IN CASH HELD		18 676	(28 641)	40 531	3 580	(22 346)	(11 051)	(20 728)	9 790	14 824
Cash/cash equivalents at the year begin:	2	26 743	45 419	16 778	6 140	57 309	57 309	46 257	25 530	35 319
Cash/cash equivalents at the year end:	2	45 419	16 778	57 309	9 720	34 963	46 257	25 530	35 319	50 143

References

1. Local/District municipalities to include transfers from/to District/Local Municipalities

2. Cash equivalents includes investments with maturities of 3 months or less

Table A8 - Cash backed reserves/accumulated surplus reconciliation

WC048 Knysna - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Cash and investments available										
Cash/cash equivalents at the year end	1	45 419	16 778	57 309	9 720	34 963	46 257	25 530	35 319	50 143
Other current investments > 90 days		(0)	0	0	700	0	(0)	(0)	(0)	(0)
Non current assets - Investments	1	11 819	13 295	14 984	23 043	16 680	16 680	26 955	29 748	32 830
Cash and investments available:		57 238	30 073	72 292	33 463	51 642	62 937	52 485	65 067	82 973
Application of cash and investments										
Unspent conditional transfers		27 045	8 414	5 634	685	773	773	–	–	–
Unspent borrowing		19 421	10 581	21 334	8 624	–	15 616	–	–	–
Statutory requirements	2	–	–	–	–	–	–	–		–
Other working capital requirements	3	(30 806)	(36 667)	(19 171)	(34 768)	(29 510)	(29 510)	(26 594)	(25 119)	(23 554)
Other provisions		9 711	14 174	17 852	12 739	12 739	12 739	15 287	16 816	18 497
Long term investments committed	4	11 788	20 225	22 342	14 802	24 245	24 245	26 955	29 748	32 830
Reserves to be backed by cash/investments	5	4 402	4 420	18 156	10 608	13 658	13 658	33 879	42 839	54 529
Total Application of cash and investments:		41 561	21 147	66 147	12 691	21 906	37 522	49 526	64 284	82 303
Surplus(shortfall)		15 677	8 926	6 146	20 772	29 736	25 415	2 958	784	671

References

1. Must reconcile with Budgeted Cash Flows

2. For example: VAT, taxation

3. Council approval for policy required - include sufficient working capital (e.g. allowing for a % of current debtors > 90 days as uncollectable)

4. For example: sinking fund requirements for borrowing

5. Council approval required for each reserve created and basis of cash backing of reserves

The anticipated consumer debtors figure of R62 million (table A6) at the end of 2012/13 is the net figure as it includes the bad debt or debt impairment provisions totalling R63 million (for more information see 'Supporting Table SA3: Supporting detail to 'Budgeted Financial Position''). As stated last year far more attention needs to be paid to minimising debt at an early stage, that is, before it reaches 90 days. After that point debt

recovery, especially on services other than rates or electricity, becomes very problematic.

From a technical perspective our Debt Impairment Provision is adequate and it is our intention to write-off some considerable amounts mainly relating to water, sewer and refuse debts towards the end of this current financial year or early in the new financial year.

Council continues to follow the iron fist in a velvet glove approach to credit control with good success. Sadly however the debtor's position can only mark time at best and we have therefore been handing over more debtors to our debt collectors for direct action.

It should be noted that by the end of the MTREF Councils outstanding borrowings should fall to R123 million. This is well below the peak of nearly R158 million reached in 2009/10 which was the year of our major credit crunch and cash concerns and coincidentally the year of the major World Cup expenditures. Once again this demonstrates the implementation of our financial strategy over the last three years and places Knysna in a very good position to take advantage of the upward economic cycle predicted for 2014/15. This is also perfect timing for the predicted NDPG spends which we believe should be close to R30 million in that period.

Table SA8 entitled Performance Indicators confirms the downward trends in both our Gearings and our Debt to Equity ratios.

Table A8 shows the Council contributions into our cash backed reserves. This is the major reason behind the drop in capital expenditure in this year. At some stage there has to be a time out in the governmental spending cycle and a review of the borrowing requirements and taxation policies undertaken. In Knysna's case that time is now. The GV incidence shift onto the lower and higher valued properties requires Council to take stock of its financial and economic situation and then to move forward in a common direction and in a controlled manner. Knysna is no different to national government or other international economies where growth is lower than forecast at present. The policies we are following should allow us in the near future to enable Council to curtail its borrowings entirely if it so wishes.

Over the last few years there has been a debate in local government circles as to how to handle VAT on Government grants. The CFO of Knysna has always taken the view that the conditional grants are VAT inclusive. In effect national government has budgeted to pay the VAT inclusive price of all goods and services of municipalities using those grants.

For some reason other government including some national and provincial departments have not understood this fully and it has prompted endless and pointless debate to the extent that the Auditor-General has sometimes become confused. The bottom line is that by making the grants VAT inclusive, national government has given local government an additional "own" revenue that can either be used to subsidise rate and tariff increases or to allow for budget increases on the expenditure side or build capital replacement reserves. Knysna has used the "own" revenue for a

mix of these purposes and has been proven correct in the manner it has treated the VAT.

Table A9 - Asset Management

WC048 Knysna - Table A9 Asset Management

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CAPITAL EXPENDITURE										
Total New Assets	1	43 954	65 947	32 368	21 109	28 018	28 018	29 839	45 655	53 479
Infrastructure - Road transport		583	3 752	1 456	1 540	5 227	5 227	2 263	1 491	2 214
Infrastructure - Electricity		3 735	4 550	2 658	1 940	5 171	5 171	5 484	2 280	3 268
Infrastructure - Water		11 380	49 103	19 823	2 062	2 062	2 062	8 807	10 247	12 628
Infrastructure - Sanitation		2 165	360	–	–	–	–	–	–	–
Infrastructure - Other		979	698	1 399	702	8 422	8 422	558	–	–
Infrastructure		*18 842*	*58 463*	*25 336*	*6 244*	*20 882*	*20 882*	*17 112*	*14 018*	*18 110*
Community		21 334	4 932	3 087	13 404	4 816	4 816	12 712	31 619	35 349
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6	3 765	2 551	3 945	1 461	2 320	2 320	15	18	20
Intangibles		14	–	–	–	–	–	–	–	–
Total Renewal of Existing Assets	2	22 124	33 836	21 845	41 902	57 402	41 786	41 244	19 620	24 644
Infrastructure - Road transport		3 915	8 997	–	2 660	660	660	1 000	764	–
Infrastructure - Electricity		4 088	9 081	3 483	10 745	16 703	9 979	10 924	4 000	5 000
Infrastructure - Water		2 987	10 585	5 481	5 031	5 121	5 121	988	3 825	6 999
Infrastructure - Sanitation		3 714	–	7 705	12 666	20 884	14 884	14 673	1 447	2 807
Infrastructure - Other		281	–	–	–	250	250	–	–	–
Infrastructure		*14 985*	*28 662*	*16 669*	*31 102*	*43 618*	*30 894*	*27 585*	*10 036*	*14 806*
Community		2 800	2 035	–	2 700	3 315	3 315	1 878	614	–
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6	4 339	3 139	5 176	8 100	10 469	7 577	11 781	8 970	9 838
Intangibles		–	–	–	–	–	–	–	–	–
Total Capital Expenditure	4									
Infrastructure - Road transport		4 498	12 749	1 456	4 200	5 887	5 887	3 263	2 255	2 214
Infrastructure - Electricity		7 823	13 631	6 141	12 685	21 874	15 150	16 408	6 280	8 268
Infrastructure - Water		14 367	59 688	25 304	7 093	7 183	7 183	9 795	14 072	19 627
Infrastructure - Sanitation		5 879	360	7 705	12 666	20 884	14 884	14 673	1 447	2 807
Infrastructure - Other		1 260	698	1 399	702	8 672	8 672	558	–	–
Infrastructure		*33 827*	*87 126*	*42 004*	*37 346*	*64 500*	*51 776*	*44 697*	*24 054*	*32 916*
Community		24 134	6 967	3 087	16 104	8 131	8 131	14 590	32 233	35 349
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets		8 103	5 690	9 121	9 561	12 789	9 897	11 796	8 988	9 858
Intangibles		14	–	–	–	–	–	–	–	–
TOTAL CAPITAL EXPENDITURE - Asset class	2	66 078	99 783	54 213	63 011	85 420	69 804	71 083	65 275	78 123
ASSET REGISTER SUMMARY - PPE (WDV)	5									
Infrastructure - Road transport		–	93 183	94 503	23 407	99 070	99 070	98 521	96 963	95 398
Infrastructure - Electricity		69 610	169 118	178 637	91 288	190 992	184 268	195 252	196 108	198 952
Infrastructure - Water		121 144	166 952	160 204	143 542	174 135	174 135	178 956	188 052	202 703
Infrastructure - Sanitation		30 981	52 944	81 718	48 075	73 828	67 828	80 321	79 507	80 053
Infrastructure - Other		1 458	848	761	155 029	1 800	1 800	2 345	2 332	2 319
Infrastructure		*223 193*	*483 045*	*515 823*	*461 341*	*539 825*	*527 101*	*555 395*	*562 962*	*579 425*
Community		15 836	20 700	23 353	53 433	85 884	85 884	100 044	131 846	166 764
Heritage assets		594	1 557	1 711	554	1 557	1 557	1 554	1 551	1 548
Investment properties		109	142 103	160 441	89	160 441	160 441	160 441	160 441	160 441
Other assets		182 165	301 900	337 700	31 608	314 688	311 796	318 560	322 801	328 609
Intangibles		412	178	88	–	88	88	46	43	43
TOTAL ASSET REGISTER SUMMARY - PPE (WDV	5	422 308	949 482	1 039 117	547 025	1 102 483	1 086 867	1 136 040	1 179 644	1 236 830
EXPENDITURE OTHER ITEMS										
Depreciation & asset impairment		29 131	87 695	18 676	33 817	22 053	22 053	21 910	21 671	20 937
Repairs and Maintenance by Asset Class	3	42 153	43 471	49 707	60 772	60 815	60 815	68 602	73 477	78 800
Infrastructure - Road transport		10 154	9 635	11 126	12 459	15 262	15 262	14 069	14 798	15 454
Infrastructure - Electricity		6 669	8 086	8 124	14 281	10 353	10 353	15 343	17 439	19 508
Infrastructure - Water		7 487	7 539	9 127	8 320	9 767	9 767	9 612	10 720	11 781
Infrastructure - Sanitation		4 132	4 053	4 258	5 165	5 527	5 527	5 938	6 252	6 540
Infrastructure - Other		151	–	–	129	111	111	451	455	463
Infrastructure		*28 594*	*29 313*	*32 634*	*40 354*	*41 019*	*41 019*	*45 413*	*49 664*	*53 746*
Community		4 972	4 870	6 177	6 722	6 817	6 817	8 607	8 545	8 998
Other assets	6, 7	8 587	9 288	10 895	13 697	12 978	12 978	14 582	15 268	16 057
TOTAL EXPENDITURE OTHER ITEMS		71 284	131 167	68 382	94 589	82 868	82 868	90 512	95 148	99 737
Renewal of Existing Assets as % of total capex		*33.5%*	*33.9%*	*40.3%*	*66.5%*	*67.2%*	*59.9%*	*58.0%*	*30.1%*	*31.5%*
Renewal of Existing Assets as % of deprecn"		*75.9%*	*38.6%*	*117.0%*	*123.9%*	*260.3%*	*189.5%*	*188.2%*	*90.5%*	*117.7%*
R&M as a % of PPE		*10.0%*	*5.4%*	*5.7%*	*11.1%*	*6.5%*	*6.6%*	*7.0%*	*7.2%*	*7.3%*
Renewal and R&M as a % of PPE		*15.0%*	*8.0%*	*7.0%*	*19.0%*	*11.0%*	*9.0%*	*10.0%*	*8.0%*	*8.0%*

References

1. Detail of new assets provided in Table SA34a

2. Detail of renewal of existing assets provided in Table SA34b

3. Detail of Repairs and Maintenance by Asset Class provided in Table SA34c

4. Must reconcile to total capital expenditure on Budgeted Capital Expenditure

5. Must reconcile to 'Budgeted Financial Position' (written down value)

6. Donated/contributed and assets funded by finance leases to be allocated to the respective category

7. Including repairs and maintenance to agricultural, biological and intangible assets

Table A10 - Basic service delivery measurement

WC048 Knysna - Table A10 Basic service delivery measurement

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Household service targets	1									
Water:										
Piped water inside dwelling										
Piped water inside yard (but not in dwelling)										
Using public tap (at least min.service level)	2									
Other water supply (at least min.service level)	4									
Minimum Service Level and Above sub-total										
Using public tap (< min.service level)	3									
Other water supply (< min.service level)	4									
No water supply										
Below Minimum Service Level sub-total										
Total number of households	5									
Sanitation/sewerage:										
Flush toilet (connected to sewerage)										
Flush toilet (with septic tank)										
Chemical toilet										
Pit toilet (ventilated)										
Other toilet provisions (> min.service level)										
Minimum Service Level and Above sub-total					Information not currently available					
Bucket toilet										
Other toilet provisions (< min.service level)										
No toilet provisions										
Below Minimum Service Level sub-total										
Total number of households	5									
Energy:										
Electricity (at least min.service level)										
Electricity - prepaid (min.service level)										
Minimum Service Level and Above sub-total										
Electricity (< min.service level)										
Electricity - prepaid (< min. service level)										
Other energy sources										
Below Minimum Service Level sub-total										
Total number of households	5									
Refuse:										
Removed at least once a week										
Minimum Service Level and Above sub-total										
Removed less frequently than once a week										
Using communal refuse dump										
Using own refuse dump										
Other rubbish disposal										
No rubbish disposal										
Below Minimum Service Level sub-total										
Total number of households	5	–	–	–	–	–	–	–	–	–
Households receiving Free Basic Service	7									
Water (6 kilolitres per household per month)		7 061	7 638	8 262	8 938	8 938	8 938	9 160	9 384	9 613
Sanitation (free minimum level service)		4 237	4 583	4 957	5 363	5 363	5 363	5 496	5 630	5 768
Electricity/other energy (50kwh per household per mo		6 700	6 800	6 900	7 000	7 000	7 036	7 100	7 200	7 300
Refuse (removed at least once a week)		5 884	6 365	6 885	7 448	7 448	7 448	7 633	7 820	8 011
Cost of Free Basic Services provided (R'000)	8									
Water (6 kilolitres per household per month)		5 344	9 008	12 278	13 442	12 929	12 070	15 272	18 534	22 573
Sanitation (free sanitation service)		599	459	497	537	537	537	628	733	856
Electricity/other energy (50kwh per household per mo		1 700	2 269	2 644	3 519	3 144	3 146	3 679	4 141	4 714
Refuse (removed once a week)		2 472	1 885	2 639	2 204	2 137	2 137	2 082	2 103	2 121
Total cost of FBS provided (minimum social packa		10 115	13 621	18 058	19 702	18 747	17 890	21 661	25 512	30 263
Highest level of free service provided										
Property rates (R value threshold)		30 000	30 000	30 000	30 000	30 000	30 000	65 000	65 000	65 000
Water (kilolitres per household per month)		8	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)		–	–	–	–	–	–	–	–	–
Sanitation (Rand per household per month)		77	42	46	47	47	47	50	53	56
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)		170	170	170	170	170	170	170	170	170
Revenue cost of free services provided (R'000)	9									
Property rates (R15 000 threshold rebate)		–	–	–	–	–	–			
Property rates (other exemptions, reductions and rebates)		16 126	18 941	21 272	23 211	22 855	22 855	22 466	22 720	24 006
Water		4 312	5 091	5 583	5 974	6 081	6 081	7 094	7 604	8 151
Sanitation		1 225	763	716	768	768	768	934	1 003	1 076
Electricity/other energy		2 188	2 322	2 951	2 873	2 603	2 603	2 340	2 621	2 974
Refuse		1 327	897	795	851	851	851	1 000	1 049	1 109
Municipal Housing - rental rebates		–	–	–	–	–	–	–	–	–
Housing - top structure subsidies	6	5 223	3 726	2 349	4 365	4 500	4 500	3 983	4 142	4 329
Other		–	–	–	–	–	–	–	–	–
Total revenue cost of free services provided (total social package)		30 400	31 739	33 666	38 042	37 658	37 658	37 817	39 139	41 645

PART 2 – SUPPORTING DOCUMENTATION

Section 5 – Overview of annual budget process

Annual planning processes

The CFO has stated in a number of budgets that in an economic downturn coupled with excessive increases for electricity then the financial elements of the IDP get turned on their head and makes the whole IDP and budget process a scarce resource allocation exercise as opposed to a proper planning one.

In recent years the operating budget of Knysna has been driven totally on the premise of cash flow and consumer affordability. Throughout South Africa there are municipalities in financial meltdown because of bad budgeting and by extension bad financial management. A bad budget automatically leads to increased non-payment and pressured cash flows.

The cash basis which we follow means that outside of those expenditures we cannot cut, for example salaries, the bulk Eskom payment and interest and redemption payments, the balance of the budget which is for repairs and maintenance, stores and materials and other expenditures simply to make the municipality function, is zero-based. In this budget repairs and maintenance has deliberately been prioritised to ensure a higher level of service delivery at the expense of “soft” services.

Budget Process 2012/13

The budget process followed the requirements of the MFMA. A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2011 as required.

The proposed budget was tabled in Council on 28 March 2012. A period of consultation then followed.

At the culmination of the process the Mayor must consider any representations and decide if any amendments should be made to the budget.

The final budget will be tabled at council on 29 May 2012 and must be approved by Council by no later than the end of the current financial year, 30 June 2012.

The Municipality’s budget is prepared on a three year basis. This takes into account the National and Provincial three year allocations to the municipality and to ensure more thorough financial planning and provide for seamless service delivery. Additionally the National Treasury Budget Circulars request local government to highlight their projected increases over the next three years to give some certainty to its customers.

Operating expenditure in 2012/13 is budgeted at R489.6 million, a 3.8% increase on the original budget for 2011/12, and a 4.8% increase on the adjusted budget for 2011/12.

The municipality sets out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This is done in the form of quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). The plan must be agreed by the Mayor within 28 days of approval of the final budget and forms the basis for the Municipality's in year monitoring.

Section 6 – Overview of alignment of the annual budget with the Integrated Development Plan

Introduction

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the Budget. The IDP and the budget are inter-related documents. The IDP is the budget in words, just as the budget is the IDP in figures. In the past two years comprehensive efforts have been towards ensuring that the two documents are closely link.

Problem Statement

It has been acknowledged that IDPs are still not particularly successful in setting out what is required on the ground. In the Provincial Governments Draft Strategic Plan the following was noted:

> "After more than a decade of municipal integrated development planning, IDPs still include the capital spending priorities of municipalities alone. Furthermore, IDPs do not pay enough attention to the planning priorities and development strategies of provincial departments and relevant national departments. Similarly, national and provincial departments have not done enough to ensure that municipalities' priorities are included in their annual performance plans and budgets.
>
> Separate, uncoordinated planning and budgeting processes and different planning structures and mechanisms have contributed to a lack of integrated planning and delivery at grassroots level. In addition, national and provincial service delivery boundaries have not been fully aligned with municipal boundaries, leading to different sets of information. This often makes it impossible for the three spheres of government to communicate, plan and implement properly. In addition, departments are not organised on a regional basis, so municipalities find themselves communicating with different officials over time on the same issues."

This is also acknowledged by the National Treasury who have embarked on creating a Standard Chart of Accounts (SCOA) for all municipalities which will have as an integral part, a section entitled "Projects" that allows for more meaningful financial reporting on the key programmes and projects intrinsic to the IDP. Knysna is proud to have been recognised in that it can contribute to this project and together with our systems service provider we will be piloting implementation of SCOA during the up-coming financial year. The complete project is scheduled for implementation in 2014.

Knysna's vision: The town that works for all

The Knysna Municipality has a vision which drives the Integrated Development Plan namely that of "The town that works for all".

Our greatest challenge has been to build our own absorptive capacity in order to ensure that such growth translates into economic development of the town. Critical to this is ensuring that the town has adequate infrastructure. The infrastructure investment requirements far outstrip our available income. The challenge has been to find innovative funding options for financing capital needs.

All of these challenges are compounding on an already existing problem of disparity between the affluent communities of Knysna and our historically disadvantaged ones. The National Treasury has seen fit to award Knysna some R120 million via the Neighbourhood Partnership Development Grant (NDPG) and there is the possibility of us receiving more money if we are seen to be developing our poorer areas optimally. This grant must be seen as the catalyst and driver in the forthcoming years to move Knysna to a higher level of development and economic growth. Without this stimulus the probability is that Knysna will decay economically with all the attendant recessionary problems that follow. This also drives us to ensure that we consolidate our relationships with the private sector, hence our fullest support of the Knysna Chamber of Commerce. National and Provincial Governments should also prove to be valuable partners. Knysna's human capital wealth must also be harnessed.

Key challenges facing Knysna

Knysna Municipality is faced with a complex set of development challenges; their outlook is consistent with the broader challenges facing local government albeit with some peculiarities:

i. Sustainable Infrastructure Investment

The continued growth of the town has put a lot of pressure on infrastructure. That growth—which cannot simply be stopped—will continue at a rate which the Municipality is battling to match financially.

ii. Focused development of the previously disadvantaged

The poorest communities in our areas are subjected to the worst living conditions and the Municipality has committed itself towards poverty alleviation. Programmes with clear funding intentions are being designed for that purpose. The Neighbourhood Revitalisation Programme is the desired response to this problem.

iii. Integrated Human Settlement

The provision of housing settlements with a strong emphasis on sustainability is an important issue for Knysna Municipality. Within the context of a composite set of development needs of the previously

disadvantaged, the Municipality will address the need for housing, as far as it financially can. Although some of the obstacles regarding successful housing provision are not necessarily within the control of the municipality i.e. access to land, the challenge still remains for Council to devise creative strategies to deal with this matter. In line with that the Council has engaged with the other spheres of government i.e. DWAF & Department of Public Works. The Integrated Human Settlement strategy will pave the way for future housing provision in the Knysna area provided the strategy remains affordable to the Knysna tax and tariff paying community

iv. The challenge of promoting Local Economic Development

The need for the diversification of the local economy through facilitating the emergence of previously underperforming sectors is an important catalyst for economic development. Our Local Economic Development strategy focuses on mainstreaming the previously disadvantaged people. Crucial to this is the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs and our SCM policies and strategies are being tailored to support this challenge.

v. The challenge of ensuring municipal financial viability

A municipality lives and dies by its ability to balance needs with resources. Knysna Municipality cannot generate sufficient resources to properly satisfy all its needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner. Promises of quick and easy solutions are simply lies.

vi. The challenge of municipal transformation and institutional development

Staff development is crucial to meet the challenges of Knysna and the new ethos of local government. The Employment Equity imperatives have to be assessed continually to ensure that Knysna Municipality's transformation remains in line with the broader transformation agenda of South Africa. Included in this must be an accelerated emphasis on growing and developing our own timber. Knysna does not have the luxury of competing in terms of salary and therefore our ability to attract qualified and quality staff is severely limited. We must therefore develop from within.

vii. Public Participation

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Knysna Municipality is challenged to ensure that it continues to build on its successes over the last few years.

Section 7 – Measurable performance objectives and indicators

Indicators and ratios

The key financial indicators and ratios mentioned below are disclosed in Annexure 2, 'Supporting Table SA8: Performance indicators and benchmarks':

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

Funding measure ratios are disclosed in Annexure 2 'Supporting Table SA10: Funding measurement'.

Drinking water quality and waste water management

Due to concerns surrounding the quality of municipal drinking water and failures in the management of waste water, National Treasury requires that the following section is included in the 2012/13 budget document.

i. **Water Services Authority & Water Services Provider:**

Knysna Municipality

Blue Drop Status

From the Blue Drop Report for 2010 of the South African Drinking Water Authority Management Performance undertaken by the Development of Water Affairs the following statement is made:

"Knysna Local Municipality once again impressed during the Blue Drop assessments; reasonably high scores were obtained which is indicative of commitment levels to drinking water quality management. A well deserved Blue Drop Certification was obtained for the water supply system of Karatara.

All the systems have in place what is required to manage according to the Blue Drop requirements, however acceptable instead of excellent microbiological water quality is generally distributed. Chemical quality also requires attention. Once this has been dealt with, more Blue Drop systems can be expected".

With eight discrete monitoring points Knysna's systems are very complex and the results were good with Karatara Water Treatment Works being awarded Blue Drop Status.

ii. Green Drop Status

From the Green Drop 2009 assessments of the Department of Water Affairs the following result was received.

"The Green Drop 2009 assessments revealed an acceptable level of management ability and delivery of a reasonable to good waste water services performance, as is evident by your Green Drop scores achieving an average of between 50% and 90%. This score places your Municipality within the 203 (45%) waste water services systems that achieved scores above 50%".

More up to date assessments are expected shortly.

iii. Water Safety Plan

The Water Safety Plan was implemented with the assessments from 2010 and the shortfalls are addressed in the operational requirements of the MTREF. Where capacity issues are of concern the challenges remain the capacity funding of major projects. Knysna Waste Water Treatment Works is being addressed in the 3 year capital program and additional funding is being sought for other areas.

iv. Challenges

The challenges, as mentioned, are for capital funding to provide additional capacity for bulk water and sewer services to meet the growth of the various towns. Grant funding is currently used and additional grant funding is being applied for, however an extended period is envisaged to fund all constraints to growth resulting from the water and waste water services. Human Resources also are a challenge and need to be addressed within the operational budget with provisions for additional staff.

Section 8 - Overview of budget related policies

The detailed policies themselves are not included in this section of the budget documentation.

See Annexure 6 to this document for the full policies.

Policies are also available at the Council offices in Clyde Street for viewing as well as on the Internet at www.knysna.gov.za. This section gives a **broad overview** of the budget policy framework and highlights the amended policies to be approved by Council resolution.

Name of Policy	**Type**	**Date of Council adoption** (if already done)	**Purpose / Basic areas covered by Policy**	**Summary of changes**	**Responsible Manager**
REVENUE RELATED					
Tariff	Unchanged	29 May 2012	Setting criteria for establishing service tariffs	n/a	Lorienne McCartney
Rates	Amended	29 May 2012	Setting criteria for establishing rates tariffs	Introduction of new rebate	Lorienne McCartney
Credit control	Amended	29 May 2012	Principles and guidelines to be followed with respect to arrear consumer debt control	Minor definitional	William Fillies
Indigent support & social rebate	Amended	29 May 2012	Guidelines and procedures for the subsidization of rates and basic services to indigent households	Minor definitional	William Fillies
BUDGET AND EXPENDITURE RELATED					
Liability, investment & cash management	amended	29 May 2012	Guideline of procedures to be followed when investing or lending money	Changes to staff operations	Lorienne McCartney
Budget	New	29 May 2012	Sets out rules and procedures to be followed in the compilation and management of the budget	n/a	Lorienne McCartney
Supply chain management	Amended	29 May 2012	Dictates procedures for the procurement of goods and services	Emphasis on local and HDI businesses	Marie Brand
Funding and reserves policy	Unchanged	29 May 2012	Sets standards and guidelines for financial viability	n/a	Lorienne McCartney

Section 9 – Overview of budget assumptions

Introduction

Knysna's financial system operates on the big wheel, little wheel principle, the same as virtually every other local authority outside the metros. What this means is that the middle to upper income groupings are billed for the vast majority of Council services. In the municipality the established areas take up 94% of debits raised as against 6% in the previously disadvantaged areas. In an economic downturn the effect of high tariffs and rates on the middle and low income groups is dramatic. This is clearly reflected in the number of new arrangements made by debtors from these groupings. As stated earlier Greater Knysna is a domestic based municipality with limited non-domestic resources. The non-domestic sector, of which 50% is tourist related, contributes 20% of total rates and tariff revenue which is simply not enough to be sustainable with all the demands currently being placed on our expenditure.

Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget.

This budget is premised on a 94% payment level. This level is below those levels achieved on a regular basis over the last few years however with the introduction of the new valuation roll there is an inevitable payment level drop because of incidence shifts in the first instance, but also because often there is a delayed reaction to new values and rates in the rand which can cause a delay in the payment of the new amounts levied. It is therefore prudent to expect a drop in the payment level. The table below shows our payment levels at end March 2012.

Month / Year	Actual	Accrued	12 Month Total Actual	12 Month Total Accrued	Payment Level							12 Month Increase	
					Current Year	Previous Years							
						2010/ 2011	2009/ 2010	2008/ 2009	2007/ 2008	2006/ 2007	2005/ 2006	Cash	Accrued
Apr-11	(22 348 591)	15 639 286	(319 484 864.48)	329 558 567.76		97%	92%	93%	99%	100%	95%	12.3%	8.0%
May-11	(24 722 843)	14 236 904	(322 807 549.89)	331 969 218.19		97%	94%	93%	100%	99%	98%	11.9%	9.1%
Jun-11	(25 499 300)	20 624 468	(328 668 894.24)	341 226 094.39		96%	95%	94%	99%	98%	98%	12.4%	11.0%
Jul-11	(23 756 793)	185 669 045	(330 834 492.91)	351 118 042.30	94%	91%	90%	84%	95%	95%	96%	12.1%	8.7%
Aug-11	(37 081 005)	17 675 861	(336 942 850.51)	356 251 366.48	95%	93%	89%	83%	97%	97%	96%	11.2%	9.7%
Sep-11	(49 784 565)	16 794 356	(341 468 381.92)	359 139 348.90	95%	92%	93%	84%	98%	96%	98%	12.9%	10.1%
Oct-11	(32 696 750)	16 924 043	(343 349 859.39)	359 243 557.84	96%	92%	92%	87%	98%	99%	97%	12.6%	8.9%
Nov-11	(27 379 392)	9 110 921	(339 982 263.18)	351 157 256.34	97%	92%	92%	89%	99%	97%	98%	9.8%	5.1%
Dec-11	(27 046 058)	19 720 640	(343 656 928.75)	361 598 648.52	95%	94%	93%	90%	100%	96%	98%	9.7%	8.2%
Jan-12	(28 579 315)	21 906 580	(347 311 146.11)	365 733 312.86	95%	96%	91%	92%	98%	98%	98%	9.1%	10.2%
Feb-12	(27 946 735)	16 984 827	(351 291 758.88)	370 087 778.31	95%	96%	92%	92%	98%	99%	97%	9.6%	11.0%
Mar-12	(27 121 412)	17 174 569	(353 962 759.62)	372 461 499.61	95%	97%	92%	92%	98%	99%	96%	9.7%	11.5%

__External factors__ (population migration, employment, etc)

Over recent years Knysna has experienced rapid population growth particularly at the poorer end of the economic scale. It is fair to say that Knysna is becoming a victim of the success of its low income housing programme. The population growth must be seen against the backdrop of

very limited developable land, a sensitive environment and the lack of new jobs being created in the local economy. This presents a huge challenge to Council to improve the efficiency of its urban systems. The unique and sensitive environment of Greater Knysna is under pressure and Council has to manage the growth demands of the economy very rigidly to ensure environmental sustainability.

There remains a paucity of up to-date economic data available for the municipal area. At best all we can surmise at present is that the population is growing faster than the previous indicators of 4% per annum with concomitant service delivery and unemployment demands.

Growth or decline in tax base of the municipality

The buoyancy of the tax base is the main determinant of the affordability of new infrastructure development. Long term financial modelling shows a financial shortfall of over R1 billion in the resources required for infrastructure development over the next 15 years.

The following assumptions about future growth in the tax base are included in the MTREF:

	2012/13	**2013/14**	**2014/15**
Growth in tax base- Rates *(* implementation of GV)*	* 4.5%	1%	1%
User Charges (%)	0%	1.0%	1.5%

General inflation outlook and its impact on the municipal activities

The revised headline CPI forecasts from National Treasury for 2012/13, 2013/14 and 2014/15 are 5.4%, 5.6% and 5.4% respectively. The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies. National Treasury have announced that local increases must be in line with the CPI forecasts and that a salary increase of only 5% should be budgeted for. As anyone remotely involved in local government will realise this means that 7% will be the likely minimum increase. NT has also communicated that any rate or tariff increase above 6% must be fully communicated to the community.

Rates, tariffs, charges and timing of revenue collection

The rates, tariffs and charges for the 2012/13 budget are included in Annexure 3.

The following table shows the assumed average domestic percentage increases built into the MTREF for rates, tariffs and charges:

	2012/13	2013/14	2014/15
Rates	0%	5%	5%
Annual fixed charges – refuse	3%	4%	5%
Water & Sewer- fixed and consumption	6%	6%	6%
Electricity – monthly consumption tariff * *Average proposed increase—not confirmed by NT*	*11%	*13%	*15%

Collection rates for each revenue source and customer type

The Municipality has in place a fair but rigorous credit control policy and has a good record of debt recovery. Furthermore, its policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt.

Nevertheless, there will always be an element of the total amount billed that will remain uncollected. The Municipality is the same as any other business in this regard. Adequate provision has to be made in the budget for any bad debts based on assumptions on collection rates.

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

R '000	2012/13	2013/14	2014/15
Annual contribution to provision for bad and doubtful debts Table A4: Debt impairment	20 220	21 542	23 106
Assumed collection rate (%)	94.0%	94.0%	95.0%

Price movements on specific items

The following amounts are included in the MTREF for increases in the following items:

R '000	2012/13	2012/13	2013/14
Bulk Purchases Table A4: Bulk purchases	119 175	137 051	159 664

More detail relating to specific items can be found in Annexure 2, 'Supporting Table SA1: Supporting detail to 'Budgeted Financial Performance''.

Trends in demand for free or subsidised basic services

Knysna's criteria for supporting free or subsidised basic services are set out in the indigent support and social rebate policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of the Equitable Share Grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the Equitable Share allocation are met by the Municipality.

Section 10 – Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Section 4, 'Table A8: Cash backed reserves/accumulated surplus reconciliation' and Annexure 2, 'Supporting Table SA10: Funding measurement'.

Fiscal Overview of Knysna Municipality

Knysna Municipality has over recent years moved to a position of relative financial stability. There is a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management and National Treasury itself has commented that Knysna remains one of the few municipality's that reconciles when comparing budget returns with the audited financial statements.

For the fifth time in six years the municipality received an unqualified audit report from the Auditor-General and in the other year it was only very technical qualifications that caused the A-G issues. The switch over to GRAP has had huge ramifications not least amongst the professional staffing at the local government level. Knysna municipality cannot afford the salaries that are a prerequisite to GRAP. There is already a dearth of qualified accountants in South Africa and the complexities that are GRAP in local government are such that outside of the metropolitan areas it is highly unlikely that qualified accountants are going to come and work at the salaries we offer. Until it is acknowledged that there is actually a world that exists outside of the metropoles and a salary structure worked out accordingly, then we will continue to muddle through as best we can.

Long term financial planning

Knysna has a credit rating of Baa2 and a Baseline Credit Assessment of 12 which was given in 2009 and subsequently confirmed in March of this year. The assessment state, *"the BCA of 12 reflects a narrow but growing local economic base that is largely dependent upon tourism. The moderate growth of Knysna over the last few years, coupled with the migration of people to the area, has increased the service delivery challenges for the municipality. Financial management and budget planning is sound, but it has to managed within narrow financial parameters given the challenges and limited financial resources"*.

The planned increases in the Knysna debt burden to fund the necessary capital expenditure will in the next few years remain high and will increase the risk profile of the municipality and this must be managed conservatively and be linked to the forthcoming 2030 planning scenario.

Section 11 – Expenditure on allocations and grant programmes

Disclosure on expenditure on allocations and grant programmes is done by way of Annexure 2, "Supporting Table SA18: Transfers and grant receipts, Supporting Table SA19: Expenditure on transfers and grant programme and Supporting Table SA20: Reconciliation of transfers, grant receipts and unspent funds".

Expenditure for each grant for the MTREF period is summarised in the table below. Note that the expenditures include the VAT portion that is recognised as expenditure on grant allocations per MFMA Circulars 48 and 58 and where two amounts are shown the first is for operating expenditure (and VAT on operating and capital expenditures) and the second is for capital expenditure.

National and Provincial Conditional Grant Allocations 2012/13 to 2014/15					
Name of Grant	**Allocating Authority / Department**	**Budget 2012/13 R'000**	**Indicative 2013/14 R'000**	**Indicative 2014/15 R'000**	**Purpose of the Grant**
Integrated housing and human settlement development grant	Province/ Local Government and Housing	32 129 10 000	30 527 5 000	34 304 3 000	To finance the funding requirements of national housing programmes (excluding recurrent costs recoverable from assets falling under the pre-1994 stock). To facilitate the establishment and maintenance of integrated and sustainable human settlements to ensure economically viable and socially equitable communities in areas with ecological integrity.
Library Services *Operational only*	Province/ Cultural Affairs and Sport	592	0	0	To enable public libraries to render an improved service by addressing staffing shortages.
Community Development Worker *Operational only*	Province/ Local Government and Housing	81	84	84	To provide financial assistance to municipalities to cover the operating costs pertaining to the functions of the CDW's
Maintenance of Proclaimed Roads *Operational only*	Province/ Transport and Public Works	32			To provide routine maintenance and/or resealing on proclaimed roads (National Roads)
Local Government Financial Management Grant (FMG) *Operational only*	National / National Treasury	1 250	1 250	1 450	To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.

Name of Grant	Allocating Authority / Department	Budget 2012/13 R'000	Indicative 2013/14 R'000	Indicative 2014/15 R'000	Purpose of the Grant
Municipal Infrastructure Grant (MIG) *	National / Provincial and Local Government (National Vote 29)	3 696 20 484	3 960 21 547	4 224 22 758	To supplement capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions. The operating portion is utilised for the Project Management Unit.
Integrated National Electrification Programme (INEP)	National / Minerals and Energy (National Vote 28)	614 4 386	246 1 754	172 1 228	To implement the Programme by providing capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.
Neighbourhood Development Partnership Grant	National/ National Treasury	94	2 456 17 544	3 469 24 780	To improve the quality of life to residents in township areas
Equitable Share *Operational only*	National / Provincial and Local Government	30 859	33 272	36 95	

* NOTE: 5% of MIG is allowed for planning. The operating amount is made up of R828 000 for the running of the Project Management Unit and the remainder is for VAT on capital projects (R2,9m) that will be recognised as own revenue per MFMA Circular 48.

Section 12 – Allocations and grants made by the Municipality

Allocations Made by the Municipality

Refer to Annexure 2, 'Supporting Table SA21: Transfers and grants made by the municipality'. The main allocation is to Knysna Tourism which is budgeted to receive R 4 000 000 in 2012/13.

Knysna Tourism is an independent Section 21 company tasked with marketing the municipality as a destination centre. For much of the last decade this marketing has been highly successful and Knysna has become a premier holiday centre for domestic and international visitors. The recent economic downturn hit the national and most specifically the Southern Cape tourist market very hard and ultimately the Knysna economy. The result is that Council has decided to review the contribution made to Knysna Tourism in light of the fact that is preparing an austerity budget and it is considered that all elements of the Knysna economy need to be critically re-examined at this time.

Section 13 – Councillor allowances and employee benefits

Refer to Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits' and 'Supporting Table SA23: Salaries, allowances & benefits (political office bearers/councillors/senior managers)' for further details.

The salary increase for 2012/13 for managers and staff is budgeted at 8.9% on the original funded budget for 2011/12 resulting in a total cost of R156 million.. The budgeted increase for the fixed remuneration component to permanent staff is 7%.

Section 14 – Monthly targets for revenue, expenditure and cash flow

Disclosure on monthly targets for revenue, expenditure and cash flow is made in Annexure 2 in the following Supporting Tables:

Monthly operating budget revenue and expenditure projections

'Supporting Table SA25: Budgeted monthly revenue and expenditure' reflects consolidated projections of revenue by source and expenditure by type for the budget year broken down per month for the budget year, and shown in total for the following two years.

'Supporting Table SA26: Budgeted monthly revenue and expenditure (municipal vote)' and 'Supporting Table SA27: Budgeted monthly revenue and expenditure (standard classification)' reflects revenue and expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly capital budget revenue and expenditure projections

'Supporting Table SA28: Budgeted monthly capital expenditure (municipal vote)' and 'Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)' show capital expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly cash flow projections

'Supporting Table SA30: Budgeted monthly cash flow' sets out receipts by source and payments by type for both operating and capital, broken down per month for the budget year, and shown in total for the following two years.

Budgeted household accounts

'Supporting Table SA14: Household bills' compiles the data for the monthly budgeted account for household income analysis, per small and large household.

Property Rates information

'Supporting Table SA11: Property rates summary' contains the Property Rates summary with all statistic data.

'Supporting Tables SA12 and SA13: Property rates by category (current) and (budget year)' reflect the current and budgeted year's expected data for Property rates by category.

Section 15 – Annual budgets and service delivery and budget implementation plans – internal departments

Adoption of the Service Delivery and Budget Implementation Plan

In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

Contents of the SDBIP

The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

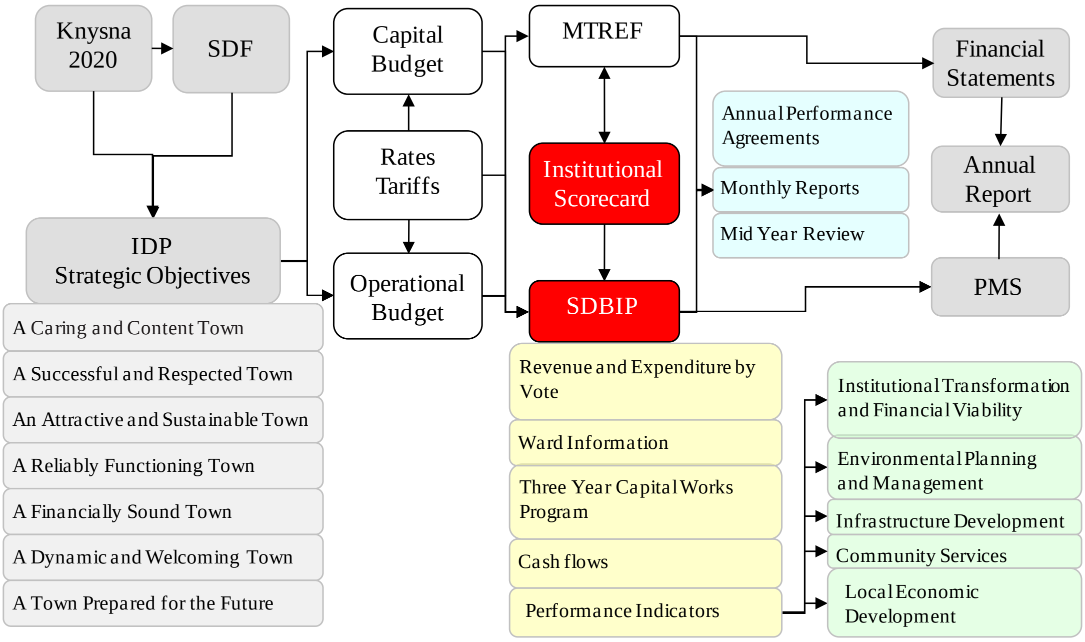
Some annual targets are still to be confirmed. These will be included in the final budget documentation and SDBIP.

SDBIP requirements

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the

budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between the strategic plan, IDP, budget and management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators. The schematic below sets out its importance in the municipal reporting cycle.

SDBIP Placement



National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Transformation and Financial Viability
2. Environmental Planning and Management
3. Infrastructure Development
4. Community Services
5. Local Economic Development

In addition Local Government Turnaround Strategy (LGTAS) has identified six key thematic problem areas that need to be addressed in varying degrees by municipalities:

1. Service delivery
2. Spatial conditions
3. Governance
4. Financial Management
5. Local Economic Development
6. Labour Relations

Way forward

The existing and proposed performance indicators for 2012/2013 will be reviewed during the last quarter of the 2011/2012 SDBIP cycle and any amendments will be included in the SDBIP for the Mayor's approval.

Institutional Scorecard

The Institutional Scorecard is a synopsis of the planned SDBIP for the medium term 2012/2013 to 2014/2015. The scorecard has been aligned with the National KPA and the Municipal KPA (IDP strategic objectives). This will form the basis of the Directors performance agreement scorecards as well as the basis for departmental performance indicators.

Section 16 – Annual budgets and service delivery agreements – municipal entities and other external mechanisms

Refer to Annexure 2, 'Supporting Table SA32: List of external mechanisms'. Council currently has only one service delivery agreement of this nature in place at the present. This agreement is with Knysna Tourism to provide the tourism function. Details of the allocation are included in Section 12.

Section 17 – Contracts having future budgetary implications

'Supporting Table SA33: Contracts having future budgetary implications' in Annexure 2 discloses all contracts which will impose financial obligations on the municipality beyond the three years covered in the annual budget.

Since Knysna falls into the category of municipalities with approved total revenue greater than R250 million, all contracts with an annual cost greater than R1 million and for longer than three years must be disclosed.

Rental: Melville Development (Customer Centre):

Year	2010/11	2011/12	2012/13	2013/14	2014/15
R 000	1 451	1 545	1 645	1 752	1 866

*Contract commenced 2006/07

Section 18 – Capital expenditure details

Capital details are shown in Annexure 2:

- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget (capital expenditure)'
- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'
- 'Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class'
- 'Supporting Table SA34c: Repairs and maintenance expenditure by asset class'
- 'Supporting Table SA36: Detailed capital budget'

The budget for 2012/13 is R71 million. The majority of the capital budget remains for trading services (60%), new housing and community services (20%).

Projects delayed from previous years

A list of capital programmes or projects delayed from previous financial years is shown in Annexure 2, 'Supporting Table SA37: Projects delayed from previous financial year/s'.

Historical actual capital spend versus budget

The following table shows the trend of spending against budget for the capital programme since 2006/07:

R '000	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12** projected
Capital Budget (adjusted)	81 518	104 796	78 417	110 844	57 733	85 420
Actual Spending	73 001	71 746	66 092	99 593	54 213	69 804
%	90	68	84	88	94	82

The above table shows a number of points for noting.

1) The steady increase in the capital budget which directly reflects the growth of the town over the period to end 2008. Council capital expenditure generally works on a two year lag to the economy of the town;
2) The cutback in capital expenditure from 2008/09 as a response to the high gearing and because of the economic downturn which was just beginning. The figures for 2009/10 are slightly misleading for trend purposes because of the water issues and disaster relief grants that were received during that time;
3) The percentage spend to budget ratio which is generally acceptable at the 85-90% levels achieved in the last two years.

Section 19 – Legislation compliance status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Knysna has been designated as a medium capacity municipality.

The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing. Knysna was designated as a pilot municipality for the reforms and is engaged in a partnership arrangement with National Treasury.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

<u>The budget preparation process</u>

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

<u>Overview</u>

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as

required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must consider the approval of the budget by 1 June and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

Budget Implementation

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. The various tables detailed in Section 4 and those additionally attached comply with the disclosure requirements.

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

The Division of Revenue Act 2010 and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

Section 20 - Other supporting documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

Annexure 1 – Main Budget Tables

Tables A1 to A10

Annexure 2 – Supporting Budget Tables

Supporting Tables SA1 to SA37

Annexure 3 – Tariffs, Charges and Fees for 2012/2013

The average increases for 2012/2013 are:

Service	**Domestic**	**Non-domestic**
Assessment rate in Rand	0%	15%
Refuse	3%	3%
Sanitation	6%	6%
Water	6%	6%
Electricity	*11% on average	*13% on average
** See tariff schedule for full detail*		

Annexure 4

Municipal Budget Circular for the 2012/13 MTREF - MFMA Circulars 58 & 59

Annexure 5 - Policies

- Budget
- Cash, liability & investment management
- Credit control
- Funding & reserves
- Indigent relief & social rebates
- Property rates
- Supply chain management
- Tariff

Annexure 6

Mayor's report on submissions received on the 2012/13 budget

Annexure 7

Implementation plan for the 5-year IDP (iMAP)

Section 21 – Municipal manager's quality certification

An annual budget and supporting documentation must be covered by a quality certificate in the format as per page 68 of the Government Gazette 32141 - 17 April 2009.

QUALITY CERTIFICATE

I, Lauren Waring, municipal manager of Knysna Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name LAUREN WARING

Municipal Manager of Knysna Municipality (WC048)

Signature

Date 24 May 2012.